

**Montachusett Regional Transit Authority
(A Component Unit of Massachusetts
Department of Transportation)**

Financial Statements and Report on
Federal Assistance Programs
in Accordance with OMB Circular A-133 with
Independent Auditors' Reports

June 30, 2014

STOWE & DEGON LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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STOWE & DEGON LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Advisory Board
Montachusett Regional Transit Authority
Fitchburg, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Montachusett Regional Transit Authority (the "Authority," a component unit of Massachusetts Department of Transportation), which comprise the statement of net position at June 30, 2014, and the statements of revenues, expenses and 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.

Auditors' 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 Authority as of June 30, 2014, and the changes in net position and cash flows for the year then ended in conformity 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 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented on page 32 for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

The schedule of net cost of service on page 14 and the supplementary information presented on pages 28 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 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.



October 21, 2014

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014

The following is the Management Discussion and Analysis ("MD&A") of the financial statements of the Montachusett Regional Transit Authority ("the Authority"), located at 1427R Water Street, Fitchburg, Massachusetts as presented. This MD&A is prepared by the Administrator, Mohammed H. Khan. The management discussion and analysis of the Authority's financial performance provides an overall review of the Authority's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights:

- The Authority's total capital assets increased by \$1,227,094 during FY2014. This increase is mainly due to the addition of vehicles to the fleet and computer systems development, as well as some construction and building improvements. Depreciation for the year was \$3,989,532.
- The Authority was able to obtain a favorable interest rate for borrowing on its Revenue Anticipation Note of .42% in August 2014, compared to .58% for the prior year note.
- The amount of Authority's Federal 5307 funds used for operations was \$2,134,000 in FY2014. These funds were allocated directly from the Formula funds and used toward urban area operations.
- Through a contract with the Commonwealth of Massachusetts' Executive Office of Health and Human Services (EOHHS), as well as agreements with local Special Education departments, the Authority increased its brokerage services revenue from \$93,674,806 in FY2013 to \$105,042,688 in FY2014, a 12.1% increase.
- The Authority was able to maintain its basic services at prior year levels.

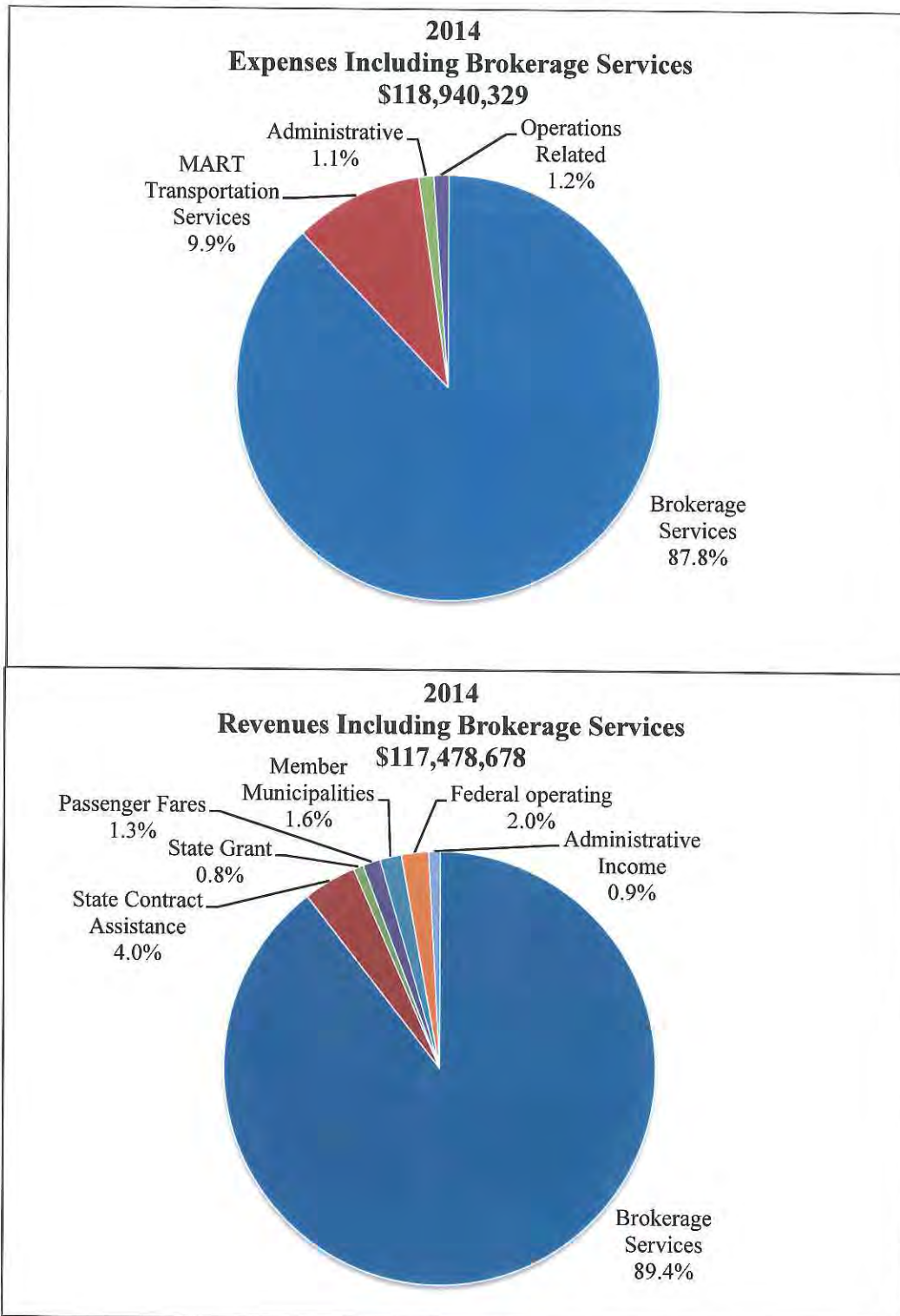
Overview of Financial Statements:

The Authority was established on August 7, 1978, by the cities of Fitchburg, Leominster and Gardner, pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth of Massachusetts to provide transit services to the communities of Fitchburg, Leominster and Gardner beginning July 30, 1979. Currently, the Authority is comprised of 22 communities listed in Note A of the financial statements.

The financial statements are general purpose and the notes thereto are considered as an integral part. This report also includes supplementary information including breakdowns of revenues and expenses by service types and an allocation of costs to member communities.

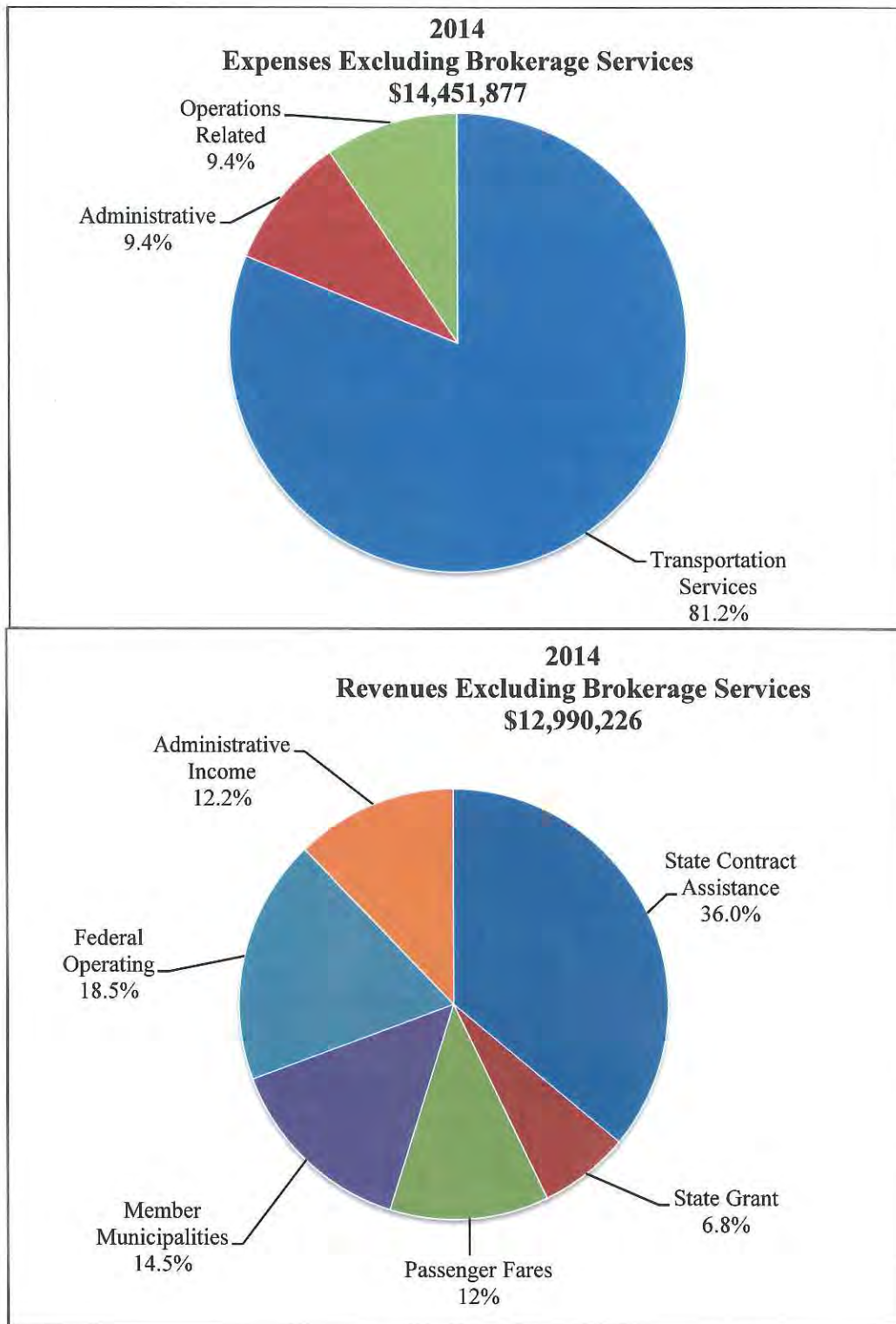
As seen in the following charts a large percentage of service the Authority provides is through its brokerage services, a self (fully) funded program which requires no funds outside of the program funds paid by the Human Services Transportation Agency (HST) with the understanding that HST continues with its cost savings incentive programs and brokerage management fees.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014



These charts reflect the net cost of service as presented on page 14. Although it is possible that the Commonwealth will reimburse the Authority for the FY2014 unreimbursed deficit, such reimbursement has not been recorded in the financial statements.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014



These charts reflect the net cost of service as presented on page 14. Although it is possible that the Commonwealth will reimburse the Authority for the FY2014 unreimbursed deficit, such reimbursement has not been recorded in the financial statements.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014

Government Financial Analysis

The table below provides a summary of the Authority's net position for 2014 and 2013.

	<u>2014 Business- type Activities</u>	<u>2013 Business- type Activities</u>
<u>Assets</u>		
Current and other assets	\$29,422,088	\$ 29,727,146
Capital assets	<u>52,016,266</u>	<u>50,789,172</u>
Total assets	<u>81,438,354</u>	<u>80,516,318</u>
<u>Liabilities</u>		
Long-term liabilities	583,335	636,668
Other liabilities	<u>38,924,300</u>	<u>37,399,170</u>
Total liabilities	<u>39,507,635</u>	<u>38,035,838</u>
<u>Net Position</u>		
Invested in capital assets, Net of related debt	51,379,598	50,099,171
Unrestricted (deficit)	<u>(9,448,879)</u>	<u>(7,618,691)</u>
Total net position	<u>\$41,930,719</u>	<u>\$ 42,480,480</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the Authority's assets exceeded liabilities by \$41,930,719.

Capital assets reported on the government-wide statements represent the largest portion of the Authority's net assets. As of June 30, 2014, capital assets represented 64% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2014, were \$51,379,598. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Change in Net Position:

The table below shows the change in net position for fiscal years 2014 and 2013.

	2014	2013	Change
Operating Revenues			
Transportation Revenue-Self Funded	\$ 105,042,688	\$ 93,674,806	\$ 11,367,882
Transportation Revenue-Urban/Rural Service	1,556,978	1,434,088	122,890
Total Operating Revenues	<u>106,599,666</u>	<u>95,108,894</u>	<u>11,490,772</u>
Non-Operating Revenues			
Federal Operating	2,398,149	2,584,050	(185,901)
Commonwealth of Massachusetts operating	5,565,460	4,394,935	1,170,525
Member Municipalities	1,884,707	1,789,211	95,496
Interest Income	9,328	4,182	5,146
Other Income, net	1,021,367	1,249,324	(227,957)
Total Non-Operating Revenues	<u>10,879,011</u>	<u>10,021,702</u>	<u>857,309</u>
Total Revenues	<u>117,478,677</u>	<u>105,130,596</u>	<u>12,348,081</u>
Operating expenses			
Transportation Expense-Self Funded	98,719,101	87,915,383	10,803,718
Transportation Expense-Urban/Rural Service	11,732,330	10,624,167	1,108,163
Administrative	8,267,974	7,905,103	362,871
Depreciation and Amortization	3,989,532	3,569,372	420,160
Total Operating Expenses	<u>122,708,937</u>	<u>110,014,025</u>	<u>12,694,912</u>
Non-Operating Expenses			
Interest Expense	167,591	220,921	(53,330)
	<u>167,591</u>	<u>220,921</u>	<u>(53,330)</u>
Total Expenses	<u>122,876,528</u>	<u>110,234,946</u>	<u>12,641,582</u>
Loss Before Capital Grants	(5,397,851)	(5,104,350)	(293,501)
Capital Grants	<u>4,848,090</u>	<u>9,180,956</u>	<u>(4,332,866)</u>
Change in Net Position	(549,761)	4,076,606	(4,626,367)
Net Position - Beginning of Year	42,480,480	37,620,473	4,860,007
Prior Period Adjustment	<u>-</u>	<u>783,401</u>	<u>(783,401)</u>
Net Position - End of Year	<u>\$ 41,930,719</u>	<u>\$ 42,480,480</u>	<u>\$ (549,761)</u>

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014

Capital Assets:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balances	Additions	Disposals / Adjustments	Ending Balances
Land and Land Improvements	\$ 4,776,268	\$ 2,717	\$ -	\$ 4,778,985
Depreciable Properties:				
Building/Improvements Fitchburg Parking	11,717,012	171,418	-	11,888,430
Building/Improvements Fitchburg Intermodal	3,778,238	2,207	(4,708)	3,775,737
Building/Improvements Leominster Parking Lot	3,501,277	-	-	3,501,277
Building/Improvements Leominster Storage	6,462,081	79,712	-	6,541,793
Building/Improvements Fitchburg Maintenance	9,631,314	5,730	(23,778)	9,613,266
Building/Improvements Gardner Maintenance	7,362,116	7,873	-	7,369,989
Improvements Fitchburg Rail	972,146	1,958	-	974,104
Improvements Wachusett Rail	944,165	1,680	-	945,845
Other Fixed Assets	2,793,947	261,847	(52,342)	3,003,452
Systems Development	-	333,846	-	333,846
Transportation Equipment	19,261,740	2,301,685	(2,365,219)	19,198,206
	<u>66,424,036</u>	<u>3,167,956</u>	<u>(2,446,047)</u>	<u>67,145,945</u>
Less Accumulated Depreciation For:				
Building/Improvements Fitchburg Parking	(2,380,275)	(814,599)	-	(3,194,874)
Building/Improvements Fitchburg Intermodal	(2,008,448)	(261,732)	4,708	(2,265,472)
Building/Improvements Leominster Parking Lot	(2,049,544)	(8,940)	-	(2,058,484)
Building/Improvements Leominster Storage	(1,070,936)	(108,398)	-	(1,179,334)
Building/Improvements Fitchburg Maintenance	(6,005,917)	(320,405)	20,476	(6,305,846)
Building/Improvements Gardner Maintenance	(1,013,493)	(351,013)	-	(1,364,506)
Improvements Fitchburg Rail	-	-	-	-
Improvements Wachusett Rail	-	-	-	-
Other Fixed Assets	(1,598,238)	(218,056)	52,082	(1,764,212)
Transportation Equipment	(10,725,767)	(1,906,389)	2,362,686	(10,269,470)
	<u>(26,852,618)</u>	<u>(3,989,532)</u>	<u>2,439,952</u>	<u>(28,402,198)</u>
Net Depreciable Property:	39,571,418	(821,576)	(6,095)	38,743,747
Construction In Progress	6,441,486	1,929,963	-	8,371,449
Fixed Assets in Process	-	122,085	-	122,085
Net Capital Assets:	<u>\$ 50,789,172</u>	<u>\$ 1,233,189</u>	<u>\$ (6,095)</u>	<u>\$ 52,016,266</u>

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014

In 2014 MART replaced all the exterior lighting at our Intermodal Center complex with energy efficient LED lamping appliances. This will help reduce expensive electricity consumption at this facility. MART's contracted engineers designed a second Solar PV array to be installed on MART's Gardner Maintenance facility in October/November 2014. Procurements for additional energy conservation measures were issued in FY2014 with construction to begin in late 2014. These projects were/will be accomplished through funding awarded by FTA's TIGGER II program.

Two 35' Hybrid Diesel buses from New Flyer were bought with a Clean Fuels grant and were delivered at the beginning of FY2014 in August/September 2013. These funds were matched with MassDOT RTA Capital funds. MART also procured five para-transit vans through a 5339 sub-recipient award from MassDOT.

Construction of the new, multi-level parking facility at the North Leominster Commuter Rail Station was substantially completed during FY2014. The facility was approved for partial occupancy and beneficial use by the Authority on May 19th, 2014, while the permanent certificate of occupancy was provided in September 2014.

The Authority has been working on the development and implementation of a new software application funded by the FTA's Veterans Transportation and Community Living Initiative (VTCLI), which is designed to provide veterans, and active military families, with increased access to transportation resources and greater mobility. A significant portion of the software application was launched in FY2014.

Financial Analysis:

- Transportation Services-The Brokerage program continues to expand while funding itself.
- The State Assistance funding increased by \$284,840. The Authority also received a one time state subsidy of \$885,685 to provide services to Athol. Local assessment has increased by \$44,730 in accordance with Proposition 2 ½, and an additional \$50,766 for the adding Athol council on aging services.
- Usage of Federal Operating Assistance slight decrease from FY2013 to FY2014.
- In addition, the Commonwealth completed forward funding of the RTA's through which the Authority received \$1.5 million of outstanding State Contract Assistance receivables and \$4.5 million in current year funds, a portion of which was used to retire a portion of the Revenue Anticipation Note.

Budgetary Highlights:

Difference between the budgeted amounts and the actual amounts are as follows:

- Overall revenues and expenditures were in line with the budget.
- Overall the Authority was able to meet its budget obligations.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Management Discussion and Analysis
For the Year Ended June 30, 2014

Funding of the Authority:

- Expenses for all services less the brokerage program were \$14.5 million, and were funded by the following:

	% of Expense	% of Funding
Authority generated revenue	22%	24%
Federal operating funds	17%	19%
Local contribution	13%	14%
Commonwealth assistance	32%	36%
State Grant	6%	7%
Deficit	10%	

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Statement of Net Position
June 30, 2014

Assets

Current Assets	
Cash and Cash Equivalents	\$ 7,454,699
Receivables for Operating Assistance	
U.S. Department of Transportation	2,189,915
Commonwealth of Massachusetts and Cities and Towns	
Constituting the Authority	2,054,759
Receivables for Capital Grants	
U.S. Department of Transportation	-
Commonwealth of Massachusetts and Cities and Towns	
Constituting the Authority	306,485
Accounts Receivable (Less Allowance for Doubtful Accounts of \$57,500)	15,738,637
Other Assets	1,253,164
Total Current Assets	<u>28,997,659</u>
Capital Assets	
Non Depreciable Capital Assets	13,150,433
Depreciable Capital Assets, Net of Accumulated Depreciation	38,865,833
Net Capital Assets	<u>52,016,266</u>
Noncurrent Receivables for Operating Assistance	<u>424,429</u>
Total Assets	<u>\$ 81,438,354</u>

Liabilities and Net Position

Current Liabilities	
Accounts Payable	\$ 14,796,490
Accrued Expenses	467,657
Deferred Revenue	65,725
Revenue Anticipation Notes Payable	23,300,000
Construction Escrow	23,138
Current Portion of Long Term Debt	53,333
Accrued Interest	217,957
Total Current Liabilities	<u>38,924,300</u>
Long Term Liabilities	
Long Term Debt net of current portion	<u>583,335</u>
Total Liabilities	<u>39,507,635</u>
Net Position	
Invested in Capital Assets, Net of Related Debt	51,379,598
Unrestricted (Deficit)	(9,448,879)
Total Net Position	<u>41,930,719</u>
Total Liabilities and Net Position	<u>\$ 81,438,354</u>

See accompanying notes to the financial statements.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues	
Transportation Revenue - Brokerage	\$ 105,042,688
Transportation Revenue-Urban/Rural Service	<u>1,556,978</u>
Total Operating Revenues	<u>106,599,666</u>
Operating expenses	
Transportation Expense - Brokerage	98,719,101
Transportation Expense-Urban/Rural Service	11,732,330
Administrative (Including Brokerage Administrative)	8,267,974
Depreciation and Amortization	<u>3,989,532</u>
Total Operating Expenses	<u>122,708,937</u>
Operating Loss	(16,109,271)
Non-Operating Revenues (Expenses)	
Federal	2,398,149
Commonwealth of Massachusetts	5,565,460
Member Municipalities	1,884,707
Interest Expense	(167,591)
Interest Income	9,328
Other Income, Net	<u>1,021,367</u>
Total Non-Operating Revenues	<u>10,711,420</u>
Loss before Capital Grants	(5,397,851)
Capital Grants	<u>4,848,090</u>
Change in Net Position	(549,761)
Net Position - Beginning of the Year	<u>42,480,480</u>
Net Position - End of the Year	<u>\$ 41,930,719</u>

See accompanying notes to the financial statements.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Statement of Cash Flows
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from passenger fares and contract reimbursements	\$ 108,254,726
Cash paid to vendors	(111,330,449)
Cash paid to employees for services	(3,747,133)
Cash paid for other administrative costs	<u>(4,564,109)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(11,386,965)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Proceeds from Revenue Anticipation Notes	23,300,000
Principal Payments on Revenue Anticipation Notes	(19,800,000)
Interest Payments on Revenue Anticipation Notes	(176,461)
Interest Income	9,328
Proceeds from Operating Grants	15,402,566
Other Income	<u>1,027,460</u>
NET CASH PROVIDED BY NON CAPITAL FINANCING ACTIVITIES	<u>19,762,893</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Payments on Notes Payable	(53,333)
Interest Payments on Notes Payable	(5,596)
Repayment of Note Payable	(2,000,000)
Proceeds from Capital Grants	5,772,435
Purchase of Capital Assets	<u>(5,199,583)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,486,077)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,889,851
BEGINNING CASH AND CASH EQUIVALENTS	<u>564,848</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 7,454,699</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating Loss	\$ (16,109,271)
Depreciation and amortization	3,989,532
Changes in Assets and Liabilities:	
Decrease in Receivables	1,655,060
Increase in Other Assets	(938,720)
Increase in Payables	20,982
Decrease in Accrued Expenses	<u>(4,548)</u>
Net Cash Used for Operating Activities	<u>\$ (11,386,965)</u>

See accompanying notes to the financial statements.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Schedule of Net Cost of Service
For the Year Ended June 30, 2014

	Urbanized Area Service	Rural Area Service	Brokerage Services	Total Area Service
Operating Costs				
RTA Administration Costs (excluding depreciation)	\$ 2,425,239	\$ 264,139	\$ 5,631,927	\$ 8,321,305
Purchased Services				
Fixed Route	5,587,514	174,114	-	5,761,628
Demand Reponse	4,675,634	1,295,068	-	5,970,702
Brokerage Services	-	-	98,719,101	98,719,101
Debt Service	26,421	3,746	137,424	167,591
Total Operating Costs	12,714,808	1,737,067	104,488,452	118,940,327
Federal Operating Assistance				
FTA Operating & Administrative	2,134,000	53,959	-	2,187,959
Other Federal	198,095	12,094	-	210,189
Total Federal Assistance	2,332,095	66,053	-	2,398,148
Revenues				
Operating	1,452,787	104,191	-	1,556,978
Brokerage Service Reimbursement	-	-	105,042,688	105,042,688
MBTA/Other Third Party Reimburseme	-	-	-	-
Other Revenues				
Advertising	18,063	1,097	-	19,160
Interest Income	1,221	645	7,462	9,328
Miscellaneous	888,484	113,722	-	1,002,206
Total Revenues	2,360,555	219,655	105,050,150	107,630,360
Net operating deficit (surplus)	8,022,158	1,451,359	(561,698)	8,911,819
Net Cost of Service	8,022,158	1,451,359	(561,698)	8,911,819
Net Cost of Service Funding				
Local Assessments	1,762,416	122,291	-	1,884,707
State Contract Assistance	4,369,670	1,195,791	-	5,565,461
Unreimbursed surplus (deficit)	\$(1,890,072)	\$ (133,277)	\$ 561,698	\$ (1,461,651)
State Contract Assistance	\$ 4,369,670	\$ 1,195,791	\$ -	\$ 5,565,461
1. Less: Partial payment made by EOTC prior to June 30	4,369,670	1,195,791	-	5,565,461
Balance Requested from the State	\$ -	\$ -	\$ -	\$ -

See independent auditors' report.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note A – The Authority and Operators

The Montachusett Regional Transit Authority (“the Authority”) is a component unit of Massachusetts Department of Transportation which in turn is a component unit of the Commonwealth of Massachusetts (“the Commonwealth”) and as such the Authority’s financial information is included in the Comprehensive Annual Financial Report of the Commonwealth.

The Authority was established on August 7, 1978, by the cities of Fitchburg, Leominster and Gardner pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth of Massachusetts (“Enabling Legislation”) to provide transit services to the communities of Fitchburg, Leominster, and Gardner beginning July 30, 1979.

The following 22 cities and towns comprise the membership of the Authority:

<u>Community</u>	<u>Date of Membership</u>
Fitchburg	1978
Leominster	1978
Gardner	1978
Ashburnham	1980
Ayer	1981
Lancaster	1981
Shirley	1981
Sterling	1982
Hubbardston	1983
Littleton	1984
Royalston	1984
Templeton	1985
Ashby	1985
Winchendon	1985
Westminster	1986
Hardwick	1988
Lunenburg	1989
Harvard	2000
Bolton	2006
Boxborough	2006
Stow	2007
Athol	2013

The Authority is governed by an advisory board consisting of members from each municipality with each member having one vote plus additional votes allocated based on that municipality’s assessment in proportion to the assessment of all member municipalities.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note A – The Authority and Operators (Continued)

The operation of the Authority's fixed route transportation serving the general public is provided under the terms of an agreement whereby contracted private vendors operate mass transit service along such routes and according to such schedules as defined by the Authority. This service is supplemented by special Dial-A-Ride/Americans with Disabilities Act (ADA) transportation using vans lift-equipped for wheelchairs as an alternative for the disabled who are unable to utilize fixed-route buses. The Authority's buses are lift-equipped for wheelchairs. The Authority agrees to reimburse the private vendors for costs and expenses which are reasonable and necessary for the efficient operation of the service.

In Fitchburg and Leominster this service is provided by Management of Transportation Services Inc. ("MTS"). The Authority paid a management fee of \$90,000 for the year ended June 30, 2014. MTS was selected through a competitive process in 2013 for a five year period with an annual renewal option.

In Gardner this service is provided by Management of Transportation Services of Gardner, Inc. ("MTG"). The Authority paid a management fee of \$41,000 for the year ended June 30, 2014. MTG was selected through a competitive process in 2013 for a five year period with an annual renewal option.

The operation of the Authority's Dial-A-MART local social service affiliated paratransit transportation is a non-fixed route service provided by Dial-A-MART Services, Inc. ("DAMS"), DAMS provides Dial-A-Ride transportation, veteran's shuttle, monthly subscription services plus other transportation services. The Authority paid a management fee of \$74,000 for the year ended June 30, 2014. Dial-A-MART Services, Inc. was selected through a competitive process in 2013 for a five year period with an annual renewal option.

The three transportation companies share a common ownership.

The operations of the Authority's paratransit service targeted for elderly and handicapped individuals is provided by the local Councils on Aging ("COA") in accordance with an understanding whereby the COAs operate specialized non-fixed route service for elderly/disabled persons. In the communities of Fitchburg, Leominster and Ashby this service is operated by Dial-A-MART Services, Inc. The Authority has agreed to reimburse the COAs for reasonable and necessary expenses for the efficient operation of the paratransit service. The local COAs are departments of each municipal government having membership in the Authority, and expenses are billed by the municipality.

Effective July 1, 2013, MART also assumed oversight of funding from Mass DOT for a paratransit operation in Athol operated by Community Transportation Services which provides demand response, non-fixed transit services to residents of the greater Athol / Orange region.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note A – The Authority and Operators (Continued)

Brokerage programs (referred to as HST, ICO's, SPED, brokerage, or fully funded) consist of the brokerage of Human Service Transportation (HST) for various agencies under the Commonwealth of Massachusetts' Executive Office of Health and Human Services (EOHHS) including: MassHealth (Medicaid), Department of Public Health (DPH), Department of Developmental Services (DDS), Department of Mental Health (DMH), Massachusetts Rehabilitation Commission (MRC) and the Massachusetts Commission for the Blind (MCB); three Integrated Care Options (ICO) which are Commonwealth Care Alliance, Inc., Fallon Total Care, LLC, and Network Health, LLC; and local municipal special needs students, from all of which the Authority receives a brokerage fee. The Authority's service area for the HST transportation program includes the greater Pioneer Valley Area, North and South Central areas and the greater Metro Boston region. The Authority's service area for local municipal Special Education departments (SPED) includes Fitchburg, Leominster, Gardner, Ayer/Shirley, Ashburnham, and Westminster. The service is provided by private operators utilizing their own vehicles. Operators are required to bid through a formal selection process whereby the Authority reimburses them through contracted negotiated rates. The Authority provides the administrative function: scheduling, coordination, monitoring for quality and cost control, management and vehicle inspections, safety instruction and backup services in case of emergency or special requirements. General and administrative expenses have been allocated to each program. During FY2014, MART negotiated a contract extension with EOHHS. The Authority executed a six year administrative contract extension to provide brokerage services for the Human Service Transportation (HST) department effective July 1, 2014. The renewed contract expires June 30, 2020.

There were 272 brokerage program operators for the fiscal year ended June 30, 2014. This list is provided in this report.

Note B- Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. Effective July 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*; GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The adoption of these pronouncements had no effect on the Authority's financial statements.

The Authority reports its financial position and results of operations as a proprietary type fund, as it is organized to be self-supporting through fees charged to external parties for goods and services. The financial statements are reported using the economic resources measurement focus and full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liabilities are incurred, regardless of the timing of cash flows. Grants are recognized as revenues as soon as qualifying expenditures have been incurred and all eligibility requirements have been met.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note B- Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through enabling legislation.
- *Unrestricted net position* consist of net assets, which do not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

Operating vs. Non-operating Revenue and Expense

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing transit services to the general public. The principal operating revenues consist of passenger fares and advertising revenue. Revenue is recognized at the time service is delivered. Operating expenses include the cost of transit services and maintenance provided by third party vendors, administrative expense and insurance. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Grants

The Authority receives capital grants from the United States Department of Transportation and the Commonwealth to be used for various purposes connected with the planning, modernization and expansion of transportation service. Pursuant to GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*," these grants are reflected in the accompanying statement of revenues, expenses and changes in net position as Capital Grants.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note B- Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets consist of land, construction in progress, buildings and improvements, equipment, and vehicles and are recorded at historical cost. Assets with a cost in excess of \$500 are capitalized. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are expensed. Capital assets, other than land and construction in progress, are depreciated using the straight-line method over their useful lives. These lives range from ten to forty years for buildings and improvements, four to twelve years for vehicles, and three to ten years for equipment. Construction in progress is transferred to building and improvements at the time the capital asset is placed in service for its intended use.

Restricted Assets

Restricted assets are restricted for the acquisition of capital assets under the terms defined in the various capital grants received by the Authority. In substantially all cases, the Authority draws down the grant funds after the vendor has been paid. Accordingly, there are no restricted assets at June 30, 2014.

Other Assets

Other assets consist primarily of prepaid insurance, materials and fuel, and other prepaid expenses.

Note C – Cash and Cash Equivalents

Investment Policy

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Authority's policy to mitigate these risks is to invest its funds in deposits with solvent financial institutions.

The Authority carries deposits that are insured by FDIC insurance, as well as federally uninsured deposits. As of June 30, 2014, the Massachusetts Municipal Depository Trust (MMDT) bank balance of federally uninsured deposits totaled \$1,226,216. The MMDT deposits are subject to the full faith and credit of the Commonwealth of Massachusetts. These deposits are invested in government securities only.

Credit Risk

As of June 30, 2014, the Authority's investment in the state investment pool, MMDT, was not rated.

The composition and amount of the Authority's cash and cash equivalents fluctuates during the fiscal year. The primary reason for the fluctuation involves the timing of proceeds of borrowings, collections of federal, state and local aid, and capital outlays made.

The Authority has defined deposit and investment policies that limit the Authority's allowable deposits or investments and address the specific types of risk to which the entity is exposed.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note D – Grants

At June 30, 2014, under Sections 5307, 5308, 5309 and 88-GG (TIGGER) of the Federal Transit Administration (“FTA”), as amended, the U.S. Department of Transportation has current active capital grants to the Authority aggregating a remaining balance of approximately \$6.1 million. The federal government normally funds up to 80% of capital projects. However, the Authority has at times been awarded federal grant funding up to 100% for approved capital improvement projects. The remaining non-federal share may be financed through state capital grants, local capital funds, and the issuance of long-term debt and toll credits.

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation. The contract provides that the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for FY2014 was \$4,679,775. In FY2014 the Commonwealth also provided a one-time state subsidy of \$885,685 for Dial-A-Ride services for Athol. In addition, the various cities and towns constituting the Authority contributed assistance in the amount of \$1,884,707 for 2014.

The non-current receivable for operating assistance includes \$424,429 from Cities and Towns constituting the Authority for previous years which are generally paid through “Cherry Sheets.” Whether these amounts will eventually be funded is undeterminable. The Authority has not reserved any amount as uncollectible related to these receivables.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Additions	Transfers and Disposals	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 4,776,268	\$ 2,717	\$ -	\$ 4,778,985
Construction in progress	6,441,486	1,929,963	-	8,371,449
Fixed Assets in process	-	122,085	-	122,085
Total capital assets not being depreciated:	11,217,754	2,054,765	-	13,272,519
Capital assets, being depreciated:				
Buildings	44,368,349	270,578	(28,486)	44,610,441
Vehicles, Fareboxes and other	19,261,740	2,301,685	(2,365,219)	19,198,206
System Development	-	333,846	-	333,846
Other Fixed Assets	2,793,947	261,847	(52,342)	3,003,452
Total capital assets, being depreciated	66,424,036	3,167,956	(2,446,047)	67,145,945
Total accumulated depreciation	26,852,618	3,989,532	(2,439,952)	28,402,198
Total capital assets, being depreciated, net	39,571,418	(821,576)	(6,095)	38,743,747
Net Capital Assets	\$ 50,789,172	\$ 1,233,189	\$ (6,095)	\$ 52,016,266

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note F – Revenue Anticipation Notes

The Authority is subsidized by the Commonwealth for its annual "Net Cost of Service" as defined in the Enabling Legislation. Prior to FY2014, these subsidies were funded subsequent to the year in which the costs are incurred. Therefore, the Authority issues revenue anticipation notes to cover cash flow requirements until funding is received.

The Revenue Anticipation Note (RAN) outstanding at June 30, 2014 consisted of one note totaling \$23,300,000. This note bore an interest rate of .577% NIC. This note was due in August 2014. The \$23,300,000 RAN was repaid in August 2014 and a new RAN was issued for \$19,000,000. Interest expense related to the RAN amounted to \$134,400 in 2014.

Note G- Long Term Debt

During the year ended June 30, 2014, the following changes occurred in long-term liabilities

	Interest Rate	Original Amount	Maturity Date	Balance 7/1/13	Reductions	Total Balance 6/30/14	Current Portion	Long-Term Portion
Note Payable - Fitchburg Redevelopment Authority	0%	\$1,050,000	June-26	<u>\$690,001</u>	<u>(\$53,333)</u>	<u>\$636,668</u>	<u>(\$53,333)</u>	<u>\$583,335</u>
Total				<u>\$690,001</u>	<u>(\$53,333)</u>	<u>\$636,668</u>	<u>(\$53,333)</u>	<u>\$583,335</u>

Maturities of Long Term Debt for the next five years and thereafter are as follows:

<u>Years ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$53,333	\$ -
2016	53,333	-
2017	53,333	-
2018	53,333	-
2019	53,333	-
2020-2024	266,665	-
2025-2026	<u>103,338</u>	<u>-</u>
Total	<u>\$636,668</u>	<u>\$ -</u>

Note H-Notes Payable

The Authority has a demand commercial line of credit available up to a maximum borrowing of \$2 million. No amounts were outstanding at June 30, 2014. The balance outstanding at June 30, 2013 was \$2 million which was repaid in FY2014. The line carries an interest rate of prime (3.25% at June 30, 2014).

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note I-Contingencies

The Authority has received capital and operating financial assistance from federal and state agencies in the form of grants. Expenditure of the funds under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the Authority. There are no known disallowances at or for the year ended June 30, 2014.

The Authority is also party to claims that arise during the normal course of business. Management and the Authority's legal counsel are currently aware of claims as described below.

The Authority has received notice of claim for a civil action in Worcester Superior Court from legal counsel for Care-A-Van Transport, Inc. – plaintiff. MART is named as co-defendant in this claim which results from the Medicaid fraud scheme perpetrated against MART by various companies owned by Alex Shrayber. The potential claim is \$195,000 and MART is currently represented by legal counsel appointed by its insurance carrier which provides business coverage for this type of claim.

Regarding the North Leominster Parking Garage project, there are two civil actions and one pending claim, as noted below:

The Authority has received notice of claim of a civil action in Middlesex Superior Court from legal counsel for TLT Construction, Inc., as third party defendant in a civil suit filed by Canatal Steel USA – plaintiff against TLT Construction, Inc. and its bonding company – Western Surety Company. The potential claim is approximately \$916,000 plus interest, costs and attorneys' fees. MART is represented by legal counsel for the project.

The Authority has also received notice of claim of a civil action in Worcester Superior Court from legal counsel for TLT Construction, Inc., as third party defendant in a civil suit filed by Barker Steel, LLC – plaintiff against TLT Construction, Inc. and its bonding company – Western Surety Company. The potential claim is approximately \$256,000 plus interest, costs and attorneys' fees. MART is represented by legal counsel for the project.

Additionally, TLT Construction, Inc., which was terminated by the Authority for failing to complete the project within the contract specified time deadline and failure to make payments to subcontractors in a timely manner, provided notice of claims for delays and other damages in excess of \$900,000.

The Authority believes the above claims are without merit and intends to vigorously contest them. The proceedings are in early stages and it is not possible at this point to predict any outcome.

The Authority has been cooperating with an inquiry into pension payments collected by the Authority's Administrator. Management and the Advisory Board believe the matter is between the Administrator and the State Retirement Board and the Authority has no obligation or liability in this matter. Accordingly, no liability has been accrued.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to the Financial Statements
For the Year Ended June 30, 2014

Note J-Retirement Benefits

The Authority's administrative staff has not had a pension fringe benefit package with the exception of Federal Social Security (FICA) since its inception in 1978. The Authority sponsors a 401A investment plan effective January 1, 2003. The Authority will contribute up to \$2,000 per year for its full-time employees after two years of full-time service. This contribution is not based on compensation and is discretionary. The total amount contributed by the Authority was \$89,984 for the year ended June 30, 2014. Approximately 50 employees benefit under the Plan.

Note K – Related Party Transactions

The Authority engages in transactions with other component units of Massachusetts Department of Transportation in the normal course of business. These transactions relate to operating as well as capital activities.

Massachusetts Bay Transportation Authority (MBTA) – the Authority is considered a sub-recipient through MBTA of a federal grant for the extension of the Fitchburg Commuter Rail and construction of the Wachusett Station. In FY2014, the Authority incurred administrative costs of \$185,025 related to the federal grant. At June 30, 2014, the receivable from MBTA totaled \$124,861 and is included in Receivables from the Commonwealth of Massachusetts in the accompanying statement of net position. The Authority also serves as ticket agency for MBTA at the Fitchburg Intermodal Station. In FY2014, the Authority collected ticket revenues of \$315,206 and remitted \$316,065 to MBTA.

Cape Ann Transit Authority (CATA) – the Authority paid CATA \$75,000 in FY2014 for contractual services that CATA employees provided to the Authority.

Montachusett Regional Planning Commission (MRPC) – the Authority paid MRPC \$161,993 in FY2014 for contractual services that MRPC employees provided to the Authority. MRPC also rents office space from the Authority for which it paid \$21,912 in FY2014.

Lowell Regional Transit Authority (LRTA) – the Authority contracts with LRTA as a vendor as part of the brokerage line of business. In accordance with the HST contract with the Authority, LRTA is the low bid for these services.

Note L – Subsequent Events

Management has evaluated subsequent events through October 21st, 2014, the date the financial statements were available to be issued.

In August 2014, the Authority paid its existing revenue anticipation note of \$23,300,000 and issued a new note for \$19,000,000. In September 2014, the North Leominster parking garage was issued its certificate of occupancy and was opened for operations. Construction in progress at June 30th, 2014 included costs of approximately \$7,800,000 related to the parking garage.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
List of Brokerage Vendors totaling 272
For the Year Ended June 30, 2014

A & G Transportation Services Inc., Revere	Cape Ann Transportation Operating Co., Gloucester
AAA Solution Inc., Sharon	Eileen Cappello, Plymouth
Aaron Transport LLC, Springfield	Careplus Transportation, Worcester
Absolute Transportation Group Inc., Woburn	Caring Choice Transportation Inc., Georgetown
Absolutransit, Gardner	Angela Caswell, Plymouth
Access Care Ride, Leominster	Center of Hope Foundation Inc., Southbridge (aka SoWorc Ar
ADH Transit Services, Worcester	Citizens Transportation LLC, Worcester
Agawan Transportation Inc., Agawam	City Cab Company Inc., Fitchburg
Allroad Transit Corporation, Stoughton	City Transit LLC, Chicopee
Allroad Transportation Corp., Stoughton	City Voyager Corp., Ashland
All-Savants Transportation LLC, Quincy	Class Inc., Lawrence
Alternatives Unlimited Inc., Whitinsville	Classic Tran of Leominster Inc., Leominster
American Training Inc., Lawrence	Client Care Solutions Inc., Lynn
American Way Transportation Inc., Newton	Clinton Livery Inc., Clinton
ANB Transportation, Inc., Waltham	Lisa Colleameno, Malden
Angel Transportation, Westford	Comfort Care Resource Group, Woburn
Deborah Apraku, Malden	Community Access Inc., Lowell
Arko Transortation Service, Lynn	Community Healthlink Inc., Worcester
Aurora Transportation, Lynn	Community Transit Services Inc., Athol
Avangard Transportation, Lynn	Community Transportation Services Inc., Indian Orchard
B & C Transportation LLC, Fitchburg	Compass Transportation Inc., Marlborough
Barry L. Price Rehabilitation Center Inc., W. Newton	Denise Conry, N .Reading
Bass River Inc., Beverly	D & T Transportation, Worcester
Bay State Transportation Co., Lynn	D S Express Transportation Co., Chicopee
Marie T. Bell, Arlington	Dasa Transportation Inc., Quincy
Best Choice Transportation Inc., Brookline	Delaney Health Care Trans LLC, Mattapan
Best Ride Inc., Newton	Delta Transportation, Inc., Worcester
Best Transportation, Natick	Dial-a-Mart Services Inc., Fitchburg
Blackstone Valley Limo, Uxbridge	Diamante Ride Inc., Brighton
Maria Bonafine, Medford	DN Transportation Inc., Raynham
Boston Mass Transport Inc., Natick	DNJ Transportation Inc., W. Roxbury
Bostonian Transportation Services Inc., Wellesley	Donahue Limousine Service, Leominster
Bridgewell Inc., Lynnfield	Dracut Transportation, Dracut
Christina Brown, Lincoln	E & A Transportation, LLC, Chestnut Hill
Busy Bee Transportation, Ashland	E T Transportation, Ware
Cab Transportation LLC, New Bedford	Eagle Livery & Transportation, Worcester
Camme Transportation Inc., Andover	Eagle Transit LLC, Springfield

East Middlesex Assoc. for Retarded Citizens, Reading
 East Springfield Transportation Inc., Springfield
 Eliot Community Human Services, Lexington
 Employment Options Inc., Marlboro
 Extra Care Transport, Worcester
 F.O.M. Transportation Inc., Woburn
 Faith Transportation, Westfield
 Fidelity House Inc., Lawrence
 First Class Care Transit Solutions Inc., Sharon
 First Student Inc., Providence, RI
 Five Stars Transportation, Natick
 Flow Transportation Services Inc., Leominster
 Francois Transportation Inc., Tewksbury
 Fred's School Bus, Winchendon
 Dawn Freeman, Peabody
 Mary Fuller, Hinsdale
 GAAMHA Inc., Gardner
 Gabriel Transportation, Amherst
 Gentle Arms Daily Trans., Chelmsford
 Gentle Ride Inc., Stoneham
 Gloria Transportation Inc., Canton
 Gokey & Quinn Bus Co., Harvard
 Greater Lowell Transportation, Dracut
 Greater Lynn Senior Services, Lynn
 Greater North Transportation Inc., N. Chelmsford
 Green Cab Co. Inc., Somerville
 Groom Transportation Inc., Brookfield
 Gusko Inc., Worcester
 Habilitation Assistance Group, Plymouth
 Hardy Transportation LLC., Winchendon
 Harmony Transportation, Woburn
 HC Transportation, Chestnut Hill
 Health Line Transport, Boston
 Heart to Heart Transportation, N. Chelmsford
 Patrick Hendershot, Malden
 Heritage Truck & Transit, Gardner
 Home and Away Transportation Inc., Lowell
 Horace Mann Educational Associates Inc., Franklin
 Hudson Transportation Services, Salem
 Hulmes Transportation Service, Belchertown

Human Resources Unlimited, Springfield
 In Time Med Transport LLC, Worcester
 Daisy Jebb, Essex
 Jet Transportation Inc., Shrewsbury
 JFK Transportation Inc., Natick
 Justice Service Inc., Billerica
 JYL Transportation, Spencer
 Kenmore Transit, Swampscott
 Kenride Inc., Revere
 Kiessling Transit Inc., Norfolk
 King Courier Trans. Inc., Webster
 Konastone Service Inc., Dracut
 K's Personal Transport Inc., Oxford
 Kush Transportation Inc., Methuen
 L & G Transportation Service, Leominster
 L. B. Transportation, Waltham
 L.E.V.I. Trans Corp., Lynn
 Lidstar International Inc., Lynn
 Lifestream Transportation LLC, Spencer
 Lifeworks Inc., Westwood
 Lodge T LLC, Revere
 Longonot Transportation Inc., Springfield
 Lowell Regional Transit Authority, Lowell
 Lowell Transportation, Tewksbury
 Loyal Transportation LLC, West Bridgewater
 LP Transportation, Palmer
 Lux Transportation, Quincy
 Luxus Inc., Quincy
 M Trans, W. Roxbury
 Malden Trans Inc., Malden
 Malka Inc., Randolph
 Management of Transportation Services Inc., Fitchburg
 Management of Transportation Services of Gardner Inc., Gardner
 Manning Faith Manning, Burlington
 Mark's Transportation LLC, Milford
 Masstran Corp., Danvers
 Maxride Inc., Dracut
 Bree McConnell, Quincy
 Medical Transportation Inc., Auburndale

Cynthia Mendez, Hyde Park
 Metro Mass Transportation Service LLC, Revere
 Metro Transport Services LLC, Revere
 Michael Transportation Services Corp., Swampscott
 Cheryl Michellotti, Harvard
 Midnight Express Livery LLC, Chelmsford
 Mighty Livery Transportation LLC, Wilmington
 Mill City Transit LLC, Billerica
 Minute Man Arc for Human Services Inc., Concord
 MJ Transportation LLC, Erving
 Mobile Transportation, Quincy
 Moose Hill Transportation Inc., Sharon
 Mystic Service Corp. Inc., Medford
 Mystic Transportation, Worcester
 Need-A-Lift Medivan Inc., Leominster
 New Worcester Yellow Cab, Worcester
 Pearl Nodiff, Natick
 Northeast ARC Inc., Danvers
 NuPath Inc., Woburn
 Nurse Care Transportation, Methuen
 Oceanside Medical Transportation, Beverly
 Omar Transport LLC, Waban
 Optimo Transportation LLC, Roxbury
 Orenstein Bernard Orenstein, Peabody
 Antonio Paiva, Everett
 Petrom Transportation, Chicopee
 Phil's Transportation, Wales
 PHL Inc., Shrewsbury
 Pilgrim Transportation Inc., Quincy
 Plimouth Transportation Inc., Plymouth
 Prestige Livery Transportation LLP, Winchester
 Prestige Medical Transportation Inc., Mattapan
 Prevalent Transport Inc., Chicopee
 Prime Solution Group, Brookline
 Professional Limousine, Millbury
 Quantum Transportation LLC, Watertown
 R & M Ride, Lexington
 R.E.M. Services Trans. LLC, Belmont
 Rafa Transportation LLC, Springfield
 Rapid Ambulance Services Inc., Holliston

Red Cab , Worcester
 Rehabilitative Resources Inc., Sturbridge
 Reliable Trans, Worcester
 Reliable Transport, Jamaica Plain
 Reliable Transportation, N. Chelmsford
 Ride on Time Inc., Lynn
 Ride Rite Medi Van Inc., Westminster
 Ridex Inc., Brockton
 Carol J. Ringer, Lynnfield
 Bertie Risso, Westford
 Riverside Industries Inc., Easthampton
 RM Transportation Inc., Swampscott
 RNC Transportation Services Inc., Burlington
 Debra J. Rogers, Hyde Park
 Royal Care Transportation, Framingham
 Safe Ride Trans. Inc., Woburn
 Safe Transportation Inc., Canton
 Sam's Trans Delivery, Lawrence
 Samtag Transit LLC, Worcester
 Janice Scaparotti, Medford
 Seaway Transportation Services Inc., Woburn
 Sera-Ride, Lynn
 Seven Hills Community Services Inc., Worcester
 Shamrock Livery Inc., Marshfield
 Sisli LLC, Brighton
 Six Star Transportation, Inc., Watertown
 SLG Run, LLC, Holbrook
 Smart Transportation Inc., Quincy
 Smooth Ride Transportation., Leominster
 Solika Transit, Springfield
 Sonic Velocity Inc., Swampscott
 South Shore Community Action Council Inc., Plymouth
 Spartacus Transportation LLC, Millis
 Star Line Transportation LLC, West Springfield
 Starlight Transportation, Worcester
 Steban Intl. Trans. & Business Group Inc., Worcester
 Storm Cloud, Medford
 Success Corporation, Watertown
 Sun Ride Transit, Randolph
 Sunrise-Amancer Inc., Springfield

Support Management Inc., Waltham
Surrimassini Inc., Salem
SVT, Chicopee
T3 Transportation Inc., Boston
Take-Off Transport, Worcester
The May Institute, W. Roxbury
Tommy's Taxi Inc., Framingham
Total Traveler Transportation LLC, Marshfield
Town Cab of Southbridge, Southbridge
Transability Inc., Melrose
Transportation On Call, Stoughton
Travelers Transit Inc., Woonsocket, RI
Tri-City Services Inc., Peabody
Unice International Group LLC, Springfield
United Transportation Group Inc., Worcester
US Comfort Express LLC, Marlborough
Valley Opportunity Council, Holyoke
Vesta Inc., Quincy
Veteran's Taxi of Newton LLC, Waltham
VHS Transportation Company, S. Easton

Victoria's Transportation, Stoughton
Vision Beyond Transportation, N. Chelmsford
Vital Transportation LLC, Everett
Vlads Transportation, W. Springfield
Voyage Transportation LLC, Quincy
VT Car & Limousine LLC, Everett
Wainwright Janet Wainwright, Sudbury
Wendo Transport Services, Dracut
West Medical Transportation Inc., Stoughton
Westfield Transport Inc., Westfield
Winnie & Josena Transportation, Worcester
Wood's Ambulance Inc., Gardner
Worcester Medical Transportation, Worcester
Worcester Transportation Corp., W. Springfield
WOW Transportation Inc., Quincy
Yaris Transportation, Lynn
Yellow Cab Co., Springfield
Yerevan Group Inc., Lynn
Youth on the Move, Springfield

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Revenue and Cost of Service by Route
For the Year Ended June 30, 2014

	Revenue		Cost of Service		Net Interest	Net Income
	Operations	Other	Transportation Service	Administrative	(Income) Expense	(Loss)
Fitchburg:						
Circle Line	\$ 81,272	\$ 57,181	\$ 683,478	\$ 160,204	\$ 2,058	\$ (707,287)
Main Line	69,365	48,804	846,099	198,322	2,548	(928,800)
Fitchburg Intown	112,696	79,291	781,271	183,127	2,352	(774,763)
Intercity Service	3,099	2,180	27,195	6,374	82	(28,372)
ADA/Dial-A-Ride	105,678	74,353	707,519	165,839	2,130	(695,457)
Fitchburg Total	372,110	261,809	3,045,562	713,866	9,170	(3,134,679)
Leominster						
Circle Line	130,859	88,609	1,110,040	261,523	3,382	(1,155,477)
Main Line	111,687	75,627	947,410	223,208	2,886	(986,190)
Leominster Intown	12,156	8,231	103,116	24,294	314	(107,337)
Intercity Service	2,820	1,910	23,921	5,636	73	(24,900)
ADA/Dial-A-Ride	100,510	68,059	695,394	163,833	2,118	(692,776)
Leominster Total	358,032	242,436	2,879,881	678,494	8,773	(2,966,680)
Lunenburg						
Fixed Route	11,767	8,551	100,305	31,146	389	(111,522)
ADA/Dial-A-Ride	4,219	3,066	21,397	6,644	83	(20,839)
Lunenburg Total	15,986	11,617	121,702	37,790	472	(132,361)
Lancaster						
Fixed Route	4,184	7,008	35,664	22,918	319	(47,709)
ADA/Dial-A-Ride	527	883	2,140	2,887	19	(3,636)
Lancaster Total	4,711	7,891	37,804	25,805	338	(51,345)
Gardner						
Circle Routes 1&2	35,150	31,592	599,475	134,134	1,662	(668,529)
MWCC	10,640	9,563	54,319	12,154	151	(46,421)
Link Service	24,053	21,618	275,221	61,582	763	(291,895)
ADA/Dial-A-Ride	55,689	50,052	427,569	95,670	1,185	(418,683)
Gardner Total	125,532	112,825	1,356,584	303,540	3,761	(1,425,528)
Athol						
Link Service	6,013	1,037	68,805	8,322	163	(70,240)
Dial-a-Ride*	968,498	167,096	948,395	114,713	2,246	70,240
Athol Total	974,511	168,133	1,017,200	123,035	2,409	0
Councils on Aging						
	76,985	10,579	2,400,686	62,522	3,378	(2,379,022)
Dial-A-Mart						
	514,797	-	872,911	268,484	-	(626,598)
TOTAL	\$ 2,442,664	\$ 815,290	\$ 11,732,330	\$ 2,213,536	\$ 28,301	\$ (10,716,213)

* Includes state subsidy of \$885,685

See Independent auditors' report.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Brokerage Program Revenue and Cost of Service
For the Year Ended June 30, 2014

	Revenue From Operations	Cost of Service		Net Interest (Income)/Expense	Net Income/(Loss)
		Transportation Service	Administrative		
Special Ed - Ashburn/West	\$ 627,851	\$ 592,159	\$ 34,913	\$ 779	\$ -
Special Ed - Fitchburg	122,954	115,995	6,806	153	-
Special Ed - Gardner	148,874	140,447	8,242	185	-
Special Ed - Leominster	1,324,613	1,249,634	73,334	1,645	-
Special Ed - Shirley	188,202	177,549	10,419	234	-
Special Ed - Other	74,183	73,261	826	96	-
TOTAL SPECIAL EDUCATION	2,486,677	2,349,045	134,540	3,092	-

COMMONWEALTH OF MASSACHUSETTS

Department of Mental Health	1,047,133	1,047,688	59,765	1,379	(61,699)
Department of Public Health	2,835,353	2,839,751	161,992	3,738	(170,128)
Mass Health	25,615,655	24,414,749	1,392,729	32,142	(223,965)
Mass Health Ico	364,967	500,003	28,522	658	(164,216)
Department of Developmental Services	12,153,600	12,168,588	694,152	16,020	(725,160)
Department of Developmental Services Dayhab	53,543,535	53,487,449	3,051,168	70,416	(3,065,498)
Department of Developmental Services Dayhab Ico	249,900	303,404	17,308	399	(71,211)
Ma Rehab & Commission for the Blind	217,080	217,460	12,405	286	(13,071)
Dial-A-MART	2,449,888	1,383,347	78,912	1,821	985,808
Administration	4,078,900	7,617	435	10	4,070,838
TOTAL COMMONWEALTH OF MASSACHUSETTS	102,556,011	96,370,056	5,497,388	126,869	561,698
TOTAL BROKERAGE PROGRAMS	\$ 105,042,688	\$ 98,719,101	\$ 5,631,928	\$ 129,961	\$ 561,698

See Independent auditors' report.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Allocation of Net Cost of Service
For the Year Ended June 30, 2014

	Fixed Route	Councils on Aging	Total	General and Administrative	Federal Assistance	Other Income	Cost of Service	Self-Funded Brokerage	State Assistance	Local Assessment	Unreimbursed Cost of Service
Fitchburg	\$ 2,926,787	\$ 353,238	\$ 3,280,025	\$ 724,816	\$ (864,615)	\$ (188,366)	\$ 2,951,860	\$ (193,070)	\$ (1,618,223)	\$ (638,160)	\$ 502,407
Leominster	2,782,856	334,138	3,116,994	730,623	(832,771)	(171,698)	2,843,148	(185,960)	(1,558,627)	(614,657)	483,904
Gardner	980,636	127,665	1,108,301	306,994	(300,861)	(87,269)	1,027,165	(67,183)	(563,096)	(222,062)	174,824
Lunenburg	105,716	62,820	168,536	38,250	(45,082)	(7,788)	153,916	(10,067)	(84,377)	(33,275)	26,197
Templeton	62,792	156,058	218,850	46,624	(58,065)	(9,168)	198,241	(12,966)	(108,677)	(42,857)	33,741
Westminster	-	146,295	146,295	26,672	(37,975)	(3,280)	131,712	(8,615)	(72,205)	(28,475)	22,417
Winchendon	31,396	96,806	128,202	23,870	(33,326)	(4,967)	113,779	(7,442)	(62,374)	(24,598)	19,365
Ayer	-	122,088	122,088	22,407	(31,705)	(2,819)	109,971	(7,193)	(60,287)	(23,774)	18,717
Boxborough	-	42,487	42,487	7,756	(11,029)	(959)	38,255	(2,502)	(20,972)	(8,270)	6,511
Harvard	-	59,463	59,463	11,075	(15,458)	(1,465)	53,615	(3,507)	(29,392)	(11,591)	9,125
Littleton	-	111,066	111,066	20,786	(28,881)	(2,796)	100,175	(6,552)	(54,916)	(21,657)	17,050
Shirley	-	65,157	65,157	25,668	(19,919)	(1,821)	69,085	(4,519)	(37,873)	(14,935)	11,758
Lancaster	33,093	93,242	126,335	26,139	(33,398)	(5,054)	114,022	(7,458)	(62,507)	(24,650)	19,407
Sterling	-	73,256	73,256	13,291	(19,010)	(1,605)	65,932	(4,312)	(36,144)	(14,254)	11,222
Stow	-	43,306	43,306	9,203	-	(1,225)	51,284	(3,354)	-	(39,201)	8,729
Ashburnham	-	94,380	94,380	17,328	(2,082)	(2,185)	107,441	(7,027)	(58,900)	(23,228)	18,286
Ashby	-	39,074	39,074	7,353	(863)	(1,559)	44,005	(2,878)	(24,124)	(9,513)	7,490
Athol	42,689	171,687	214,376	218,231	(60,207)	(107,926)	264,474	(17,298)	(144,986)	(57,176)	45,014
Hubbardston	-	57,451	57,451	10,412	(1,266)	(1,253)	65,344	(4,274)	(35,822)	(14,126)	11,122
Bolton	-	11,959	11,959	2,243	(264)	(303)	13,635	(892)	(7,474)	(2,948)	2,321
Hardwick	-	62,065	62,065	11,673	(1,371)	(1,593)	70,774	(4,629)	(38,799)	(15,300)	12,046
Totals	\$ 6,965,965	\$ 2,323,701	\$ 9,289,666	\$ 2,301,414	\$ (2,398,148)	\$ (605,099)	\$ 8,587,833	\$ (561,698)	\$ (4,679,775)	\$ (1,884,707)	\$ 1,461,653

See Independent auditors' report.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Schedule of Administrative, General and Interest Expenses
For the Year Ended June 30, 2014

ADMINISTRATIVE	BROKERAGE PROGRAMS	REGIONAL TRANSIT AUTHORITY	TOTAL
Insurance - General Liability Ex/Umbr	\$ 71,075	\$ 71,075	\$ 142,150
Insurance - Property	66,306	66,306	132,612
Insurance - Other Vehicles	131,103	243,478	374,581
Insurance - Bus	-	125,191	125,191
Advertising - Marketing / Legal / Consultant	6,416	1,389	7,805
Printing	144	32	176
Consultant - Technical/MRPC	78,973	184,271	263,244
Payroll - Administrative / Ticket Agency / Grant / Ten	3,121,885	685,292	3,807,177
Legal Counsel	49,885	10,950	60,835
Auditor	21,679	4,759	26,438
Office Supplies	40,058	8,793	48,851
Equipment/Maintenance & Equip Lease Expense	77,087	16,922	94,009
Purchase Services / IT Software	14,906	3,272	18,178
Travel & Meetings/Conference/Training	24,312	5,337	29,649
Self Funded Rent Expense	208,056	-	208,056
Consultants - Computer Service Contracts	340,425	167,672	508,097
Consultants - Operational / CATA	75,000	-	75,000
Staff Unemploy / Taxes / Insurance	662,782	145,489	808,271
Miscellaneous Expense	15,613	3,427	19,040
Telephone	397,134	87,176	484,310
Reserve Fund / Bad Debt Expense	27,646	-	27,646
Utilities & Maintenance Water St. Facility	20,998	188,977	209,975
Utilities & Maintenance ITC Facility	162,891	35,757	198,648
Utilities & Maintenance Gardner Facility	10,095	90,852	100,947
Utilities & Maintenance N. Main Facility	7,458	67,119	74,577
Total Administrative	5,631,927	2,213,536	7,845,463
GENERAL AND INTEREST			
Debt Service / Bank fees	22,479	4,935	27,414
Interest Expense	114,945	25,232	140,177
Ticket Agency Expense	-	316,065	316,065
Commuter Rail Interface	-	159,779	159,779
Total General And Interest	137,424	506,011	643,435
Total Administrative, General and Interest	\$ 5,769,351	\$ 2,719,547	\$ 8,488,898

See Independent auditors' report.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

<u>Federal Grant Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation (FTA)			
Direct Recipient Grants			
Operating Assistance - Section 5307 Urban Area Formula	20.507	MA-90-X705	\$ 2,134,000
Capital - Section 5307 Urban Area Formula			
Miscellaneous property improvements, Computer hardware/network, North Leominster parking garage	20.507	MA-90-X647	750,000
Capital - Section 5309 Discretionary			
New construction No. Leominster parking garage at commuter rail station	20.500	MA-04-0040	558,992
Capital - Section 5309 Discretionary Tigger II Discretionary			
Transit energy management model for renewable resources	20.500	MA-88-0001	196,974
Capital - Section 5307 Urban Area Formula	20.507	MA-90-X668	653,406
North Leominster garage, misc property improvements			
Capital - Section 5309 Veterans Transportation	20.500	MA-04-0073	515,740
Capital - Section 5308 Hybrid Buses	20.519	MA-58-0001	979,400
Total Direct Recipient Expenditures			<u>5,788,512</u>
U.S. Department of Transportation (FTA)			
Sub-Recipient Grants (Pass-Through Commonwealth of Massachusetts)			
Capital - Section 5317 New Freedom/Same Day Ride			
Demand response ADA and expand D-A-R services	20.521	MA-57-X031	53,955
Capital - Section 5339 Bus and Bus Facilities			
Rehab facility, five fully accessible vehicles	20.526	MA-34-0002	232,822
MBTA commuter rail service to Wachusett	20.500	MA-78-0002	185,025
Capital - Section 5310 Mobility Assistance Program			
Ten fully accessible vehicles	20.513	MA-16-X006	581,190
Total Sub-Recipient Federal Expenditures			<u>1,052,992</u>
Total Expenditures of Federal Awards			<u>\$ 6,841,504</u>

See accompanying notes to schedule of expenditures of federal awards.

Montachusett Regional Transit Authority
(A Component Unit of Massachusetts Department of Transportation)
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montachusett Regional Transit Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

STOWE & DEGON LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Advisory Board
Montachusett Regional Transit Authority
Fitchburg, Massachusetts

We have audited, in accordance with the 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, the financial statements of Montachusett Regional Transit Authority (the "Authority", a component unit of Massachusetts Department of Transportation) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs (2014-01) to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs (2014-02) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Authority in a separate letter dated October 21, 2014.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 21, 2014

STOWE & DEGON LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Advisory Board
Montachusett Regional Transit Authority
Fitchburg, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Montachusett Regional Transit Authority's (the "Authority," a component unit of Massachusetts Department of Transportation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



October 21, 2014

**MONTACHUSETT REGIONAL TRANSIT AUTHORITY
(A COMPONENT UNIT OF MASSACHUSETTS DEPARTMENT OF TRANSPORTATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with Circular A-133, Section .510(a)	No

Identification of Major Program(s)

<u>Program</u>	<u>CFDA Nos.</u>
United States Department of Transportation –	
Federal Transit Cluster	20.500 / 20.507
Transit Services Program Cluster	20.513
Clean Fuels	20.519
Dollar threshold used for distinguishing between Types A and B programs	\$300,000
Auditee qualified as a low-risk auditee	No

**MONTACHUSETT REGIONAL TRANSIT AUTHORITY
(A COMPONENT UNIT OF MASSACHUSETTS DEPARTMENT OF TRANSPORTATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

II. Finding – Financial Audit

2014-01: Failure to Reconcile Cash Accounts in a Timely Manner (Material Weakness)

Condition: Upon arrival for audit fieldwork, auditors discovered that cash balances were not accurate in the general ledger and that bank accounts had not been reconciled to the general ledger for several months. The MMDT general ledger balance was negative \$8 million, while the bank statement balance was in excess of \$1 million positive. The reconciliation process for the June 2014 balances was not completed until late September.

Cause: Two main causes were identified with this finding. Accounting staff had been using an automated reconciliation process which turned out to be functioning inadequately, so although staff was investing the effort in reconciling the accounts, the results were not compared to the general ledger. Secondly, there was no management individual reviewing the reconciliation process.

Recommendation: We understand the related software problem has been identified and repaired. We recommend that an individual other than the preparer review the reconciliation process on a timely basis to determine that cash general ledger balances are properly reconciled.

Management's response: The Authority's fiscal staff, along with consultants, discovered the deficiency in the system software and immediately instituted a corrective action. We have corrected the software application problem and instituted a reconciliation process with the supervisor and senior accounting staff review, according to best practices.

2014-02: Delays in Reconciling Federal Grants Receivable (Significant Deficiency)

Condition: Federal capital grants as of June 30 must be reported through the TEAM website by the end of July. However, the federal capital grants receivable general ledger balance was not reconciled until September. During this process, management discovered that approximately \$66,000 in federal capital grants earned in fiscal 2014 were incorrectly recorded as fiscal 2015 grant income. We note, however, that the funds were properly reported in the TEAM website in fiscal 2014.

Cause: Currently the system used to report grant expenditures is not integrated with the general ledger.

Recommendation: We understand the Authority is in the process of implementing a grants management system. We recommend that the fiscal accounting staff work closely with the program director of grants to assure accuracy in reporting grant activity in the general ledger until the system is fully functional and placed into service.

Management's response: Management agrees with the finding and as noted in the recommendation, is in the process of integrating the grants management system with the general ledger. The Authority's accounting staff, along with the program director of grants will monitor and assure accuracy relative to grant reporting activities in the general ledger until the system is fully integrated, functional and placed into service.

III. Federal Award Findings and Questioned Costs:

No findings

* * * * *

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STOWE & DEGON LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

To the Advisory Board and Management
Montachusett Regional Transit Authority

In planning and performing our audit of the financial statements of Montachusett Regional Transit Authority (the "Authority") as of and for the year ended June 30, 2014, 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*, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The attached Appendix A includes comments on the Authority's internal controls which we consider to be material weaknesses and significant deficiencies, as well as comments from the prior year which need further management attention.

This communication is intended solely for the information and use of management, the Advisory Board, others within the organization, Massachusetts Department of Transportation, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Stowe & Degon LLC

October 21, 2014

Montachusett Regional Transit Authority

Appendix A

Comments from Current Year

Material Weaknesses

Year-end Financial Close Process

Observation: As indicated in our management letter comments from prior years and repeated below, a strong interim financial closing process will allow for a more efficient and timely year-end financial closing process. We would expect MART to be able to have its financial records reconciled, adjusted and ready for audit by the middle of August. In the fiscal year 2014 audit, the final adjusted trial balance was not provided to us until September 26, 2014, less than one week before the reporting deadline for draft financial statements.

Recommendation: The first step in improving the interim and year-end closing processes is to have an experienced accounting and financial reporting specialist in the role of Controller/Chief Financial Officer. The individual in this role should have a strong accounting, financial reporting and analysis background with an organization of similar size and complexity as MART. This experience should include dealing with several revenue streams and cost centers, administration of contracts, preparations and management of budgets including analysis and mitigation of cost over-runs. Additionally, familiarity with internal controls and the ability to evaluate, streamline and automate the organization's accounting and financial reporting processes will be vital to MART going forward.

Management response: We are currently in the process of pursuing a qualified accounting / finance individual with a background consistent with the recommendation above to help restructure the fiscal department and guide the team in providing on time, quality financial information.

Bank Account Reconciliations

Observation: Upon arrival for audit fieldwork, auditors discovered that cash balances were not accurate in the general ledger and that bank accounts had not been reconciled to the general ledger for several months. The MMDT general ledger balance was negative \$8 million, while the bank statement balance was in excess of \$1 million positive. The reconciliation process for the June 2014 balances was not completed until September 19, 2014. Two main causes were identified with this weakness. Accounting staff had been using an automated reconciliation process which turned out to be functioning inadequately, so although staff was investing the effort in reconciling the accounts, the results were not compared to the general ledger as a final step. Secondly, there was no management individual reviewing the reconciliation process.

Recommendation: We understand the related software problem has been identified and repaired. We recommend that an individual other than the preparer review the reconciliation process on a timely basis to determine that cash general ledger balances are properly reconciled. Bank accounts should be reconciled as soon as the month end bank statements are received.

Management response: MART fiscal staff, along with consultants, discovered the deficiency in the system software and immediately instituted a corrective action. MART has corrected the software application problem and instituted a reconciliation process with the supervisor and senior accounting staff review, according to best practices.

Significant Deficiency

Grant Reconciliations

Observation: Federal capital grants as of June 30 must be reported through the TEAM website by the end of July. However, the federal capital grants receivable general ledger balance was not reconciled until September. During this process, management discovered that approximately \$66,000 in federal capital grants earned in fiscal 2014 were incorrectly recorded as fiscal 2015 grant income. We note, however, that the funds were properly reported in the TEAM website in fiscal 2014. Currently the system used to report grant expenditures is not integrated with the general ledger.

Recommendation: We understand the Authority is in the process of implementing a grants management system. We recommend that the fiscal accounting staff work closely with the program director of grants to assure accuracy in reporting grant activity in the general ledger until the system is fully functional and placed into service.

Management's response: MART agrees and as noted in the recommendation, is in the process of integrating the grants management system into the General Ledger. MART accounting staff, along with the program director of grants will monitor and assure accuracy relative to grant reporting activities in the General Ledger until the system is fully integrated, functional and placed into service.

Follow up on Prior Year Comments

Net Asset Accounts in the General Ledger

The Authority's general ledger includes eight separate accounts related to net assets. The purpose and accounting policies for the use of several of the accounts are not clearly defined. Journal entries posted to these accounts were analyzed during the audit process and several reversing and correcting entries were required.

We recommend that net asset accounts be reduced to four accounts: Federal capital grants, State and other capital grants, and Depreciation expense, all of which would capture current year activity and be closed out at the end of the year to the final net asset account, Unrestricted net assets. In the event that management determines that a correction should be made to unrestricted net assets back to the beginning of the year, any adjustment should be supported by a thorough analysis, management's justification for the restatement of beginning net assets, and documentation of the adjustment.

2014 follow up – this comment is repeated in 2014.

Management's response: The Authority is taking the steps to introduce asset by class designations to correctly reflect the depreciation life and utilization. This will allow the current account structure to be more effectively utilized in or during analysis and preparation of management presentations.

Interim Financial Close Process

The Authority has made progress in closing the general ledger at interim dates and producing reports that support the reporting date balances. Certain accounts, such as capital assets and related depreciation, capital and operating grant revenue, and net asset accounts should be supported by roll-forward analyses that track activity from the previous reporting date to the current reporting date. We recommend that roll forward analyses be prepared and reconciled for the accounts listed above on a quarterly basis if not more often.

2014 follow up – this comment is repeated in 2014.

Management's response: The Authority instituted for the FY2014 fiscal close, a reconciliation process for fixed assets additions, fixed assets depreciations and fixed assets disposals in a roll-forward methodology. This was presented to the auditors during the FY2014 audit.

Compensated Absences

The Authority properly tracks vacation hours that will require a future payment and records a liability for such future costs. The policy according to the Personnel Handbook is to limit unused vacation hours to 150 hours and comp time up to 20 hours. At least 20% of the employees for which an accrual was required exceeded 150 vacation hours. We understand that extra hours can be approved for carryover; however, we suggest that this be the exception rather than the rule and that all approvals be documented in writing. We also note that requiring vacations to be taken as earned is an effective internal control that should be in place at the Authority.

2014 follow up – the Authority is in the process of addressing this issue by paying out some of the carryover balance before the end of calendar year 2014 and placing a strict cut off on carryover balances going forward.

Management's response: Effective with the 2015 fiscal year vacation accruals, the Authority will strictly enforce the four week maximum carry-over, use or lose vacation policy which is currently part of MART's Personnel handbook. In order to remove the existing excess vacation liability, MART has instituted a one-time vacation buyback policy for employees that are over to the allowed four week carryover maximum.

Year End Financial Close Process

The prior year comment identified five major processes that needed to be completed on a more timely basis as follows:

- Implementing a new capital asset depreciation program and migrating information from the old system
- Reconciling capital assets to federal capital grant spending
- Determining internal costs to be charged to the MBTA grant
- Examining consulting costs to determine whether they should be capitalized or expensed
- Obtaining, reconciling and recording vendor invoices

Four of the items were addressed prior to the start of the FY2013 audit fieldwork, and the capital asset software program was implemented in FY2014.

2014 follow up – the first item was accomplished during the audit process as noted above. Although the rest of the comments had been considered addressed in fiscal 2013, we note that in fiscal 2014 MBTA billings were not accomplished on a timely basis.

Management's response: The Authority will ensure that all future invoicing to the MBTA or any other agency for project management work will be accomplished in a timely manner.

Interim Financial Close Process

The Authority has developed an interim close process which was implemented at December 31, 2012 and for the quarters ended March 31, 2013 and June 30, 2013. Starting in July 2013, the Authority has begun closing its financial records on a monthly basis.

2014 follow up – as noted above, the interim financial close process lost some traction in FY14.

Management's response: During the 2015 fiscal year, MART is continuing to improve the financial close procedures, along with training and working structure with all departments. This involves cross-department integration with HR, Grants Management and Procurement.