

PIONEER VALLEY TRANSIT AUTHORITY

**Financial Statements and
Supplementary Information**

June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Advisory Board of the
PIONEER VALLEY TRANSIT AUTHORITY
 2808 Main Street
 Springfield, MA 01107

We have audited the accompanying financial statements of the business-type activities of Pioneer Valley Transit Authority, a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2011 and 2010, which comprise the Pioneer Valley Transit Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pioneer Valley Transit Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the financial statements, the Pioneer Valley Transit Authority adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pioneer Valley Transit Authority, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011 on our consideration of the Pioneer Valley Transit 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 and budgetary comparisons on pages 6 and 7, and the Required Supplementary Information on pages 30 and 31 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Pioneer Valley Transit Authority's financial statements as a whole. The supplementary information starting on page 32 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Adelson Moynihan Kowalczyk PC
ADELSON MOYNIHAN KOWALCZYK PC

September 14, 2011

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

As the Administrator of the Pioneer Valley Transit Authority (the Authority), I offer readers of the Authority's financial statements this overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the Authority exceeded its liabilities at June 30, 2011 by \$39,049,179.
- The Authority's total net assets increased by \$10,870,529 in fiscal year 2011 as shown below:

| | 6/30/2011 |
|--|----------------|
| Increase in other post employment benefits as required by GASB 45 | \$ (1,575,404) |
| Increase in reserves for extraordinary expenses | 91,359 |
| Loss before capital and other items | (1,484,045) |
| Contributed capital | 20,341,008 |
| Depreciation on capital assets | (7,851,728) |
| Other changes (Note 10) | (134,706) |
| | \$ 10,870,529 |

- The total operating revenue increased \$269,040 4.2% from fiscal year 2010.
- The operating expenses decreased \$(931,223) (2.5%) from fiscal year 2010.
- The Authority expended \$20,314,592 on capital assets.

The Authority's operations are funded annually through a state required computation of the net cost of service. Except for the establishment of a restricted reserve, as allowed under Massachusetts General Laws, the Authority's funding cannot exceed its net cost of service. However, a deficit can result if funding is not sufficient to cover expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which consist of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows and Notes to the Financial Statements. The Authority is a special purpose government engaged in only business type activities. As such, its financial statements consist of only those required for enterprise funds and notes to the financial statements.

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 9 through 29 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents budgetary information, pension funding progress and retiree health plan funding progress which is required supplemental information. The supplementary information can be found on pages 6, 30 and 31 of this report.

Government Financial Analysis

The Authority's net assets consist almost exclusively of its net investment in capital assets (e.g. land, construction in progress, buildings, revenue vehicles and equipment); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide fixed route and paratransit services to individuals within its service area; consequently, these net assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if any, must be provided from other sources, since the capital assets themselves can not be used to liquidate these liabilities. The Authority currently has no capital lease obligations or capital debt.

Summary of Net Assets

| | <u>6/30/2011</u> | <u>6/30/2010</u> |
|---|----------------------|----------------------|
| Total current assets | \$ 36,112,783 | \$ 36,235,715 |
| Restricted cash | --- | 3,766,374 |
| Prior receivables from the State | 5,975,759 | 5,975,759 |
| Allowance for uncollectible | (5,975,759) | (5,975,759) |
| Property and equipment, net | <u>51,947,445</u> | <u>39,511,803</u> |
| Total assets | 88,060,228 | 79,513,892 |
| | | |
| Total liabilities | <u>49,011,049</u> | <u>51,335,242</u> |
| | | |
| Investment in capital assets, net of related debt | 51,947,445 | 39,511,803 |
| Restricted reserve | 278,711 | 187,352 |
| Unassigned | <u>(13,176,977)</u> | <u>(11,520,505)</u> |
| | | |
| Total net assets | <u>\$ 39,049,179</u> | <u>\$ 28,178,650</u> |

Net assets may serve over time as a useful indicator of a financial position. The Authority's assets exceeded its liabilities by \$39,049,179 at the close of fiscal year 2011.

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

An additional portion of the Authority's net assets, shown as "Restricted reserve", represents resources that are subject to approval of the Secretary of Transportation. As of June 30, 2011, the Authority's reserve for extraordinary expenses was \$278,711.

Unassigned net assets represent funds that may be used to fund current operations. During fiscal year 2011, the Authority's unassigned net assets decreased a net amount of (\$1,656,472) from fiscal year 2010 for a total negative unassigned fund balance of (\$13,176,977) at June 30, 2011. This net decrease in unassigned fund balance is mainly due to the current year accrual of (\$1,575,404) in other post employment benefits as required by GASB 45.

**Summary of Statement of Revenues, Expenses
and Changes in Net Assets**

| | <u>6/30/2011</u> | <u>6/30/2010</u> |
|--|----------------------|----------------------|
| Total operating revenues | \$ 6,738,965 | \$ 6,469,925 |
| Total operating expenses | <u>36,716,114</u> | <u>37,647,337</u> |
| Operating income (loss) | (29,977,149) | (31,177,412) |
| | | |
| Total non-operating revenues (expenses) | <u>28,493,104</u> | <u>29,598,240</u> |
| Income (loss) before capital contributions and other items | (1,484,045) | (1,579,172) |
| | | |
| Capital contributions | 20,341,008 | 10,810,140 |
| Other capital asset additions | --- | 102,249 |
| Nonreimbursable depreciation | (7,851,728) | (5,954,632) |
| Union Station (Note 5) | --- | (14,680,409) |
| Doubtful State operating receivables (Note 3) | --- | (5,975,759) |
| Debt settlement with government (Note 8) | --- | 943,502 |
| Other changes | <u>(134,706)</u> | <u>342,155</u> |
| Change in net assets | 10,870,529 | (15,991,926) |
| | | |
| Net assets, beginning | <u>28,178,650</u> | <u>44,170,576</u> |
| | | |
| Net assets, ending | <u>\$ 39,049,179</u> | <u>\$ 28,178,650</u> |

Operating revenues increased \$269,040, 4.2% from the prior year. This increase is consistent with the increase in ridership on the fixed route and paratransit services.

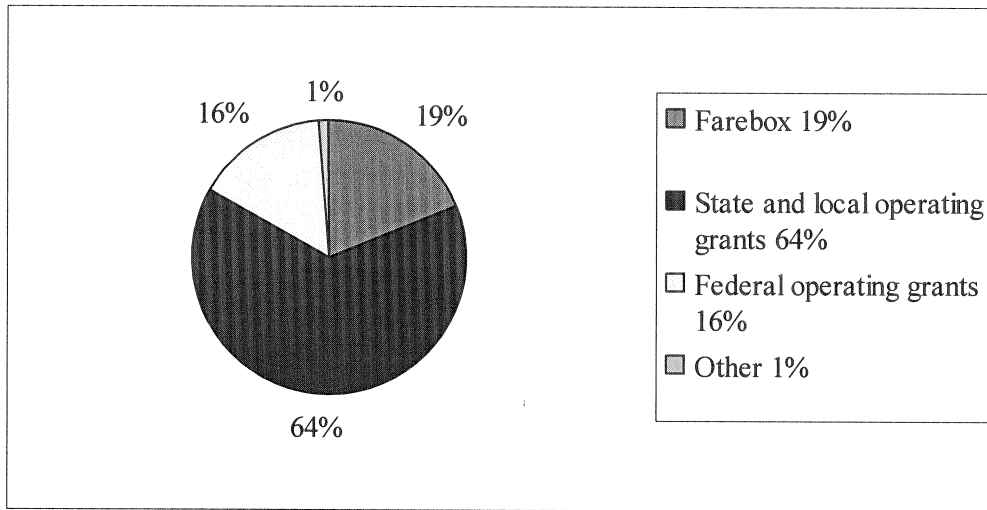
PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

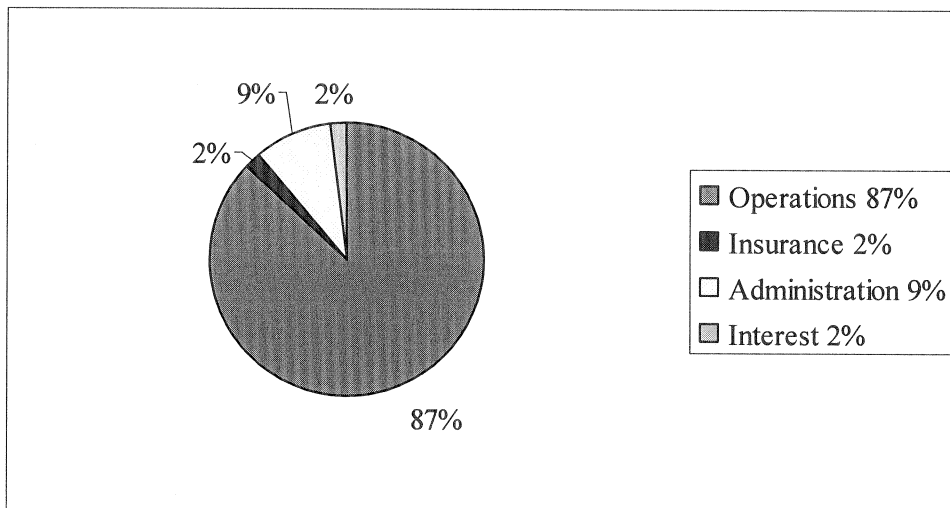
For the Year Ended June 30, 2011

Operating expenses decreased \$(931,223) (2.5%) from the prior year; fixed route service decreased (\$705,477) from fiscal year 2010 mainly due to decreased costs for fuel, contracted labor and related fringes; paratransit services increased \$47,204 from fiscal year 2010; shuttle service increased \$10,954 from fiscal year 2010; administrative salaries, taxes and fringe benefits decreased \$(447,631) from fiscal year 2010 primarily due to a decrease in accrued pension costs and other administrative expenses increased \$163,727 from fiscal year 2010 mainly due to a combination of increases in rent and the re-class of planning expenses from capital.

Total Operating and Non-operating Revenues of \$35,825,715 by Source



Total Operating and Non-operating Expenses of \$37,309,760 by source



PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

Budget vs. Actual - an analysis of significant budget variances (budget versus actual results), including reasons for the variances that may affect future services or liquidity is as follows:

Revenues

Fare revenues

| | FY2011 Actual | FY2011 Budget | Variance + (-) |
|------------------------|---------------------|---------------------|-------------------|
| Fixed route income | \$ 6,050,575 | \$ 5,653,376 | \$ 397,199 |
| Paratransit income | 661,034 | 653,205 | 7,829 |
| Shuttle service income | 27,356 | 30,128 | (2,772) |
| | <u>\$ 6,738,965</u> | <u>\$ 6,336,709</u> | <u>\$ 402,256</u> |

Ridership increased 3.5% this fiscal year, primarily due to high fuel prices, well beyond what was projected at budget time last year.

Government assistance

| | FY2011 Actual | FY2011 Budget | Variance + (-) |
|---------------------------|------------------|------------------|-------------------|
| Federal assistance | \$ 5,847,871 | \$ 5,696,670 | \$ 151,201 |
| State contract assistance | 16,216,342 | 16,540,668 | (324,326) |
| Local assistance | 6,561,208 | 6,561,208 | --- |
| Other State assistance | 110,000 | 110,000 | --- |

Federal Assistance exceeded budget due to maximizing the allowable support to preventive maintenance costs.

A 2% increase in state contract assistance was expected in the fall of 2010 for the fiscal year 2011. Due to fiscal constraints, the Commonwealth of Massachusetts level funded all RTA's again in fiscal year 2011 to fiscal year 2010 levels.

Local assistance is the funding received from all of the Authority's communities and is capped at a 2.5% increase each fiscal year.

Other state assistance of \$110,000 is funding passed through the State, to fully fund transportation services provided to Stoneybrook.

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

Other revenues

| | FY2011 <u>Actual</u> | FY2011 <u>Budget</u> | Variance <u>+ (-)</u> |
|-----------------|-------------------------|-------------------------|--------------------------|
| Advertising | \$ 220,570 | \$ 300,000 | \$ (79,430) |
| Other income | 90,708 | 54,735 | 35,973 |
| Interest income | 40,051 | 42,016 | (1,965) |

Advertising revenue fell short of budget due to the declining economy.

Other income exceeded budget due to larger than expected gain on the sale of vehicles in this fiscal year.

Expenses

| | FY2011 <u>Actual</u> | FY2011 <u>Budget</u> | Variance <u>+ (-)</u> |
|---|-------------------------|-------------------------|--------------------------|
| Fixed route service | \$ 25,519,440 | \$ 24,565,826 | \$ (953,614) |
| Paratransit service | 7,545,643 | 7,223,654 | (321,989) |
| Shuttle service | 298,434 | 324,294 | 25,860 |
| Administrative salaries, taxes and fringe benefit | 1,848,529 | 1,780,566 | (67,963) |
| Other administrative expenses | 1,482,068 | 1,169,829 | (312,239) |

Fixed route costs exceeded budget primarily because of the increase in the accrual required under GASB 45 (\$1,289,000) to record the liability for non-pension post-retirement benefits. This is an unfunded accrual and has no impact on current year funding or deficit levels.

Paratransit costs exceeded budget primarily due to the increase in fuel expenses in fiscal year 2011 over what was expected.

Administrative salaries were actually well under budget due to staff reductions, however the additional funding of the other post employment benefits (\$286,405) attributed to a budget shortfall in this category.

Other Administrative costs exceeded budget primarily due to the re-class of leasing and planning expenditures that had previously been reflected as capital assets. This amount represents the federal portion of these expenditures which under previous audits were classed differently. There is no net-effect on this re-class as there is an offsetting revenue source reflected in federal revenue assistance. Savings in other areas such as equipment maintenance helped to minimize the effects of this re-class

Conclusion - the re-class of leasing and planning costs had no net-impact on the budget. The additional accruals for the GASB 45 representation of non-pension post-retirement benefits created "on-paper" overages but have no impact on balancing to State Contract Assistance levels. The use of operational savings, additional revenue, and extraordinary reserves, allowed the Authority to meet the reduced State Contract Assistance level in fiscal year 2011.

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

Capital and Debt Administration

Capital Assets

The Authority's investment in capital assets as of June 30, 2011 amounted to \$51,947,445, net of accumulated depreciation. The investment in capital assets includes land, construction in progress, buildings, vehicles, and equipment. The Authority primarily acquires its capital assets under federal capital grants with state matching funds. The total net increase in capital assets for the current year was \$12,435,642 or a 31% increase.

Major capital asset events during the current year included the following:

1. Construction in progress expenditures for the intermodal centers of \$2,164,568
2. Building improvements of \$225,722
3. Acquisition of revenue vehicles of \$13,174,734 and disposal of old revenue vehicles of \$(6,250,127)
4. Acquisition of equipment of \$4,679,708 and disposal of old equipment of \$(655,708)
5. Acquisition of service vehicles of \$69,860
6. Net change in accumulated depreciation during the current year of \$(973,115)

| | Capital Assets | |
|------------------------------------|-----------------------|---------------|
| | 6/30/2011 | 6/30/2010 |
| Land | \$ 265,500 | \$ 265,500 |
| Construction in progress | 1,187,798 | 6,383,505 |
| Buildings | 20,451,452 | 20,225,730 |
| Leasehold improvement, Holyoke MTC | 7,360,275 | --- |
| Revenue vehicles | 72,408,409 | 65,483,802 |
| Equipment | 32,324,056 | 28,300,056 |
| Service vehicles | 1,202,271 | 1,132,411 |
| Total capital assets | 135,199,761 | 121,791,004 |
| Accumulated depreciation | (83,252,316) | (82,279,201) |
| Capital assets, net | \$ 51,947,445 | \$ 39,511,803 |

Revenue Anticipation Notes

At the end of fiscal year 2011, the Authority had revenue anticipation notes of \$35,400,000. These notes provide operating cash flow until Commonwealth appropriations are received.

Subsequent to fiscal year end June 30, 2011, the Authority issued a \$35,300,000 operating anticipation note maturing on July 27, 2012 at a rate of 1.50%. The favorable interest rate is due to the legislative reinstatement of the full faith and credit of the Commonwealth to repay this note, should Authority funds not be available. The Authority repaid their \$35,400,000 notes due July 29, 2011.

PIONEER VALLEY TRANSIT AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2011

Status of Intermodal Centers

Holyoke Multi-Modal Transportation Center

This project was completed in September 2010. The only outstanding task is the installation of the bus port LED signs. They are scheduled to be installed in November 2011. The remaining space on the first floor will be leased out in September 2011.

Westfield Intermodal Transportation Center

The RFP for project plan was finalized but not released as the Mayor wanted to conduct due diligence. The Memorandum of Understanding for the plan development was drafted but not finalized.

Union Station Intermodal Transportation Center

Remaining State funding has been transferred to the Springfield Redevelopment Authority. Federal grants will be transferred when directed to do so by the FTA.

Economic Factors and Next Year's Budget

Funding for the Authority's net cost of service (non-capital expenses less all non-capital revenues except state contract assistance and member municipality assessments) is dependent primarily (up to 75%) on operating assistance from the Commonwealth of Massachusetts. This operating assistance is funded a year in arrear by the State (the Authority's fiscal 2011 assistance will be included in the State's fiscal year 2012 budget). The balance (at least 25% but no more than 50%) of the Authority's net cost of service is funded also in arrears (currently 2 years back) through assessments to member municipalities. These assessments may increase annually in the aggregate by no more than 2.5%, plus the members' share of any new services.

A number of economic factors will or may affect the Authority's 2012 operations, such as increases in payroll and fringe related to union contracts, fuel increases, and other costs of running the Authority. Currently there is a 1% differential (\$202,704) between what was budgeted for in fiscal year 2012 in state contract assistance and what has been forecasted. The favorable interest rate received on the July revenue anticipation note sale has already covered that shortfall. The Authority will continue to manage its expenses and services efficiently into fiscal year 2012.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional information, contact Mary MacInnes, Administrator, Pioneer Valley Transit Authority, 2808 Main Street, Springfield, MA 01107.

PIONEER VALLEY TRANSIT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30,

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 5,837,833 | \$ 1,136,968 |
| Receivables, net | 29,331,281 | 33,993,574 |
| Prepaid expenses | <u>943,669</u> | <u>1,105,173</u> |
| Total current assets | 36,112,783 | 36,235,715 |
| Restricted cash (Note 9) | --- | 3,766,374 |
| Prior receivables from the State | 5,975,759 | 5,975,759 |
| Allowance for uncollectible | (5,975,759) | (5,975,759) |
| Property and equipment, net | <u>51,947,445</u> | <u>39,511,803</u> |
| TOTAL ASSETS | <u>88,060,228</u> | <u>79,513,892</u> |
| LIABILITIES | | |
| Accounts payable | 3,328,617 | 3,036,681 |
| Accrued payroll and related liabilities | 150,379 | 220,079 |
| Accrued pension | 395,101 | 439,904 |
| Insurance claims reserve | 1,250,000 | 1,500,000 |
| Accrued interest | 582,760 | 643,806 |
| Notes payable | <u>35,400,000</u> | <u>35,400,000</u> |
| Total current liabilities | 41,106,857 | 41,240,470 |
| Due to Springfield Redevelopment Authority (Note 9) | --- | 3,766,374 |
| Deferred revenue | 291,792 | 291,403 |
| Accrued other post employment benefits | <u>7,612,400</u> | <u>6,036,995</u> |
| TOTAL LIABILITIES | <u>49,011,049</u> | <u>51,335,242</u> |
| NET ASSETS | | |
| Nonspendable | | |
| Invested in capital assets, net of related debt | 51,947,445 | 39,511,803 |
| Restricted reserve | 278,711 | 187,352 |
| Unassigned | <u>(13,176,977)</u> | <u>(11,520,505)</u> |
| TOTAL NET ASSETS | <u>\$ 39,049,179</u> | <u>\$ 28,178,650</u> |

See notes to financial statements.

PIONEER VALLEY TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------|---------------|--|
| Operating revenues | | | |
| Fixed route income | \$ 5,653,376 | \$ 6,050,575 | \$ 397,199 |
| Paratransit income | 653,205 | 661,034 | 7,829 |
| Shuttle service income | 30,128 | 27,356 | (2,772) |
| Total operating revenues | 6,336,709 | 6,738,965 | 402,256 |
| Operating expenses | | | |
| Fixed route service | 24,565,826 | 25,519,440 | (953,614) |
| Paratransit service | 7,223,654 | 7,545,643 | (321,989) |
| Shuttle service | 324,294 | 298,434 | 25,860 |
| Administrative salaries, taxes and fringe benefits | 1,780,566 | 1,848,529 | (67,963) |
| Other administrative expenses | 1,169,829 | 1,482,068 | (312,239) |
| Reimbursable depreciation | --- | 22,000 | (22,000) |
| Total operating expenses | 35,064,169 | 36,716,114 | (1,651,945) |
| Operating income (loss) | (28,727,460) | (29,977,149) | (1,249,689) |
| Nonoperating revenues (expenses) | | | |
| Government operating assistance | | | |
| Federal | 5,696,670 | 5,847,871 | 151,201 |
| Massachusetts | 16,540,668 | 16,216,342 | (324,326) |
| Member communities | 6,561,208 | 6,561,208 | --- |
| Other assistance | 110,000 | 110,000 | --- |
| Advertising income | 300,000 | 220,570 | (79,430) |
| Other income | 54,735 | 90,708 | 35,973 |
| Interest income | 42,016 | 40,051 | (1,965) |
| Interest expense | (577,837) | (593,646) | (15,809) |
| Total non-operating revenues (expenses) | 28,727,460 | 28,493,104 | (234,356) |
| Income (loss) before capital contributions and other items | \$ --- | (1,484,045) | \$ (1,484,045) |
| Contributed capital | | 20,341,008 | |
| Nonreimbursable depreciation | | (7,851,728) | |
| Other changes | | (134,706) | |
| CHANGE IN NET ASSETS | | 10,870,529 | |
| Net assets, beginning | | 28,178,650 | |
| NET ASSETS, ENDING | | \$ 39,049,179 | |

See notes to financial statements.

PIONEER VALLEY TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------|---------------|--|
| Operating revenues | | | |
| Fixed route income | \$ 5,694,560 | \$ 5,786,593 | \$ 92,033 |
| Paratransit income | 635,091 | 654,084 | 18,993 |
| Shuttle service income | 32,834 | 29,248 | (3,586) |
| Total operating revenues | 6,362,485 | 6,469,925 | 107,440 |
| Operating expenses | | | |
| Fixed route service | 25,750,403 | 26,224,917 | (474,514) |
| Paratransit service | 7,420,582 | 7,498,439 | (77,857) |
| Shuttle service | 341,312 | 287,480 | 53,832 |
| Administrative salaries, taxes and fringe benefits | 1,717,871 | 2,296,160 | (578,289) |
| Other administrative expenses | 1,158,396 | 1,318,341 | (159,945) |
| Reimbursable depreciation | --- | 22,000 | (22,000) |
| Total operating expenses | 36,388,564 | 37,647,337 | (1,258,773) |
| Operating income (loss) | (30,026,079) | (31,177,412) | (1,151,333) |
| Nonoperating revenues (expenses) | | | |
| Government operating assistance | | | |
| Federal | 6,247,184 | 7,297,699 | 1,050,515 |
| Massachusetts | 17,808,476 | 16,119,383 | (1,689,093) |
| Member communities | 6,401,179 | 6,401,179 | --- |
| Other assistance | 110,000 | 110,000 | --- |
| Advertising income | 275,000 | 268,228 | (6,772) |
| Other income | 10,776 | 9,687 | (1,089) |
| Interest income | 173,781 | 38,843 | (134,938) |
| Interest expense | (1,000,317) | (646,779) | 353,538 |
| Total non-operating revenues (expenses) | 30,026,079 | 29,598,240 | (427,839) |
| Income (loss) before capital contributions and other items | \$ --- | (1,579,172) | \$ (1,579,172) |
| Contributed capital | | 10,810,140 | |
| Other capital asset additions | | 102,249 | |
| Nonreimbursable depreciation | | (5,954,632) | |
| Union Station (Note 5) | | (14,680,409) | |
| Doubtful State operating receivables (Note 3) | | (5,975,759) | |
| Debt settlement with FTA (Note 8) | | 943,502 | |
| Other changes (Note 8) | | 342,155 | |
| CHANGE IN NET ASSETS | | (15,991,926) | |
| Net assets, beginning | | 44,170,576 | |
| NET ASSETS, ENDING | | \$ 28,178,650 | |

See notes to financial statements.

PIONEER VALLEY TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

| | 2011 | 2010 |
|--|-----------------|-----------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 6,845,047 | \$ 6,412,328 |
| Payments for goods and services | (32,139,523) | (34,523,597) |
| Payments to employees | (1,918,229) | (2,400,931) |
| Net cash provided (used) by operating activities | (27,212,705) | (30,512,200) |
| Cash flows from noncapital financing activities: | | |
| Receipts of operating grants | 28,735,421 | 29,928,261 |
| Proceeds from issuing revenue anticipation notes | 35,400,000 | 35,400,000 |
| Repayments of revenue anticipation notes | (35,400,000) | (32,675,000) |
| Interest paid | (654,692) | (825,224) |
| Net cash provided (used) by noncapital financing activities | 28,080,729 | 31,828,037 |
| Cash flows from capital and related financing activities: | | |
| Receipts of capital grants | 20,341,008 | 10,810,140 |
| Payments for capital acquisitions | (20,314,592) | (10,912,389) |
| Net cash provided (used) by capital and related financing activities | 26,416 | (102,249) |
| Cash flows from investing activities: | | |
| Interest on savings | 40,051 | 38,843 |
| Net cash provided (used) by investing activities | 40,051 | 38,843 |
| NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS | 934,491 | 1,252,431 |
| Cash and equivalents, beginning | 4,903,342 | 3,650,911 |
| CASH AND EQUIVALENTS, ENDING | \$ 5,837,833 | \$ 4,903,342 |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | |
| OPERATING LOSS | \$ (29,977,149) | \$ (31,177,412) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Reimbursable depreciation | 22,000 | 22,000 |
| Loss on disposal of fixed assets | 5,222 | --- |
| Advertising and other income | 311,278 | 277,915 |
| Change in assets and liabilities: | | |
| (Increase) decrease in receivables | 4,527,587 | (274,823) |
| (Increase) decrease in prepaid expenses | 161,504 | (38,921) |
| Increase (decrease) in accounts payable | 291,936 | (1,042,711) |
| Increase (decrease) in accrued payroll and related liabilities | (69,700) | (104,771) |
| Increase (decrease) in accrued pension | (44,803) | 159,994 |
| Increase (decrease) in insurance claims reserve | (250,000) | 465,405 |
| Increase (decrease) in deferred revenue | 389 | 28,469 |
| Increase (decrease) in Due to government | --- | (142,641) |
| Increase (decrease) in Due to Springfield Redevelopment Authority | (3,766,374) | (451,228) |
| Increase (decrease) in other post employment benefits | 1,575,405 | 1,766,524 |
| Net cash provided (used) by operating activities | \$ (27,212,705) | \$ (30,512,200) |

See notes to financial statements.

PIONEER VALLEY TRANSIT AUTHORITY**NOTES TO FINANCIAL STATEMENTS****June 30, 2011****NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Organization**

The Pioneer Valley Transit Authority (the Authority), a component unit of the Commonwealth of Massachusetts, operates under Massachusetts General Laws (MGL) Chapter 161B as a body politic and a corporate and political subdivision of the Commonwealth of Massachusetts. Its members consist of the cities and towns of Agawam, Amherst, Belchertown, Chicopee, East Longmeadow, Easthampton, Granby, Hadley, Hampden, Holyoke, Leverett, Longmeadow, Ludlow, Northampton, Palmer, Pelham, South Hadley, Springfield, Sunderland, Ware, West Springfield, Westfield, Wilbraham and Williamsburg. It has a general responsibility to develop, finance and contract for the operation of mass transportation facilities within its territory. It is authorized to improve, modify, or extend existing facilities and enter into agreements with other parties, including government agencies, municipalities, authorities, private transportation companies, railroads, corporations, and other concerns, providing for construction, operation and use by such other party of any mass transportation facility or equipment of the Authority.

The Authority's activities are managed by an administrator who is appointed by an Advisory Board which is made up of the chief elected officials or their appointees from the member communities. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from the federal and state government and member municipalities. In addition, the Authority receives capital grants from the federal and state government to finance acquisitions and improvements of facilities and equipment.

The Authority provides fixed route service to the cities and towns above, which is provided by Springfield Area Transit Company, Valley Area Transit Company and UMass Transit.

The Authority provides ADA paratransit service for people with disabilities throughout the Pioneer Valley within $\frac{3}{4}$ miles of a fixed route. This service provides a shared-ride and door-to-door van transportation for individuals with disabilities that prevent them from riding the fixed route bus service.

The Authority also provides door-to-door, demand responsive accessible van service to seniors over the age of 60 throughout the Pioneer Valley.

Basis of Accounting

An enterprise fund is used to account for the Authority, which is maintained on the accrual basis of accounting.

The Authority uses proprietary fund accounting which follows all Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards issued by the Financial Accounting Standards Board prior to December 31, 1989 generally are followed to the extent that those standards do not conflict with or contradict GASB guidance.

Proprietary funds distinguish operating revenues and expenses 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 contract reimbursements for demand response transit services provided to agencies of the Commonwealth of Massachusetts. Operating expenses include the cost of transit services provided by third party vendors, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 - (Continued)

The Authority implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)*. This statement provides guidance for the accounting and financial reporting of post employment benefits other than pensions (i.e. post retirement health care benefits). It requires governments to report the annual OPEB cost and their unfunded actuarial accrued liabilities for past service costs. Further, it requires certain footnote disclosures.

The Authority is a component unit of the Commonwealth of Massachusetts per statement No. 14 of the Governmental Accounting Standards Board. Massachusetts provides funding to the Authority.

Fund Balances

During the year ended June 30, 2011, the Authority implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources reported in its financial statements.

Fund balances are classified as follows in the Authority's financial statements:

Non-spendable

Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted

Amounts that can be spent only for specific purposes because of state laws, or externally imposed conditions by grantors or creditors. The Authority has a restricted reserve established for the purpose of meeting the cost of extraordinary expenses in accordance with Massachusetts General Laws, Chapter 161b, Section 6(q). At June 30, 2011, the Authority's reserve balance was \$278,711.

Unassigned

All amounts not included in other spendable classifications.

Revenue Recognition

Operating assistance and capital assistance are recorded at the time eligible expenditures under the terms of the grants are incurred.

Budgetary Basis of Accounting

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Administrator presents to the Advisory Board a proposed budget by April 1 each year for the fiscal year commencing the following July. The budget includes proposed expenditures and the means of financing them.
2. By June 1 each year, the budget is legally enacted by a vote of the Advisory Board.

Funding

The Authority's operations are funded through fares from riders and assistance provided under various federal, state, and local grants. Reimbursement under these grants is based on expenses incurred during the fiscal year and is subject to certain compliance regulations.

NOTE 1 - (Continued)**Capital Grants**

The Authority's capital assets are generally acquired with federal, state and local capital grants. These assets are owned by the Authority and included in property and equipment. Proceeds received from dispositions of these assets must be either refunded to the grantor agency or used to acquire new capital items. Capital grant revenues are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as capital contributions.

Cash and Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment

Property and equipment are recorded at acquisition cost and depreciation is calculated using the straight-line method over five to forty year lives.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through September 14, 2011, the date which the financial statements were available to be issued.

Concentration of Source of Supply of Labor

On August 1, 2010, the Authority signed a five year contract expiring on June 30, 2015, for fixed route transportation services with the University of Massachusetts.

On September 1, 2006 the Authority signed a contract effective September 1, 2006 and expiring on August 31, 2011, for its fixed route transportation services with Springfield Area Transit Company (SATCo) and Valley Area Transit Company (VATCo), divisions of First Transit, Inc. Subsequent to fiscal year end, the Authority signed a new three year contract with the same company effective September 1, 2011 and expiring on August 30, 2014, with the option to renew the agreement for up to two additional three year periods.

One hundred percent (100%) of SATCo's employees are members of the Local 484 of the Amalgamated Transit Union. SATCo's labor agreement with the Union is effective through June 30, 2012.

One hundred percent (100%) of VATCo's employees are members of the Local 1459 United Food and Commercial Workers International Union. VATCo's labor agreement with the Union is effective through December 31, 2012.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$22,842 and \$13,288 for the years ended June 30, 2011 and 2010, respectively.

Comparative Information

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

NOTE 2 - DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, banker's acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT).

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority carries deposits and short-term investments that are insured by FDIC insurance. Insured bank deposits as of June 30, 2011, were \$753,568. Uninsured bank deposits as of June 30, 2011 were \$6,074,407.

NOTE 3 - RECEIVABLES CONSISTED OF THE FOLLOWING AT JUNE 30:

| Current receivables | 2011 | 2010 |
|--|--------------|--------------|
| Federal | | |
| Operating assistance | \$ 1,262,096 | \$ 4,923,942 |
| Capital assistance | 2,041,907 | 2,851,618 |
| Total - Federal | 3,304,003 | 7,775,560 |
| Massachusetts | | |
| Operating assistance for current year expenditures | 16,216,343 | 16,216,343 |
| Capital assistance | 1,021,868 | 1,460,756 |
| Total - Massachusetts | 17,238,211 | 17,677,099 |
| Member communities | | |
| Operating assistance for current year expenditures | 6,561,208 | 6,401,179 |
| Operating assistance for prior year expenditures | 2,018,298 | 1,824,093 |
| Total - member communities | 8,579,506 | 8,225,272 |

(Continued)

NOTE 3 - (Continued)

| | | |
|--|----------------------|----------------------|
| Trade receivables | | |
| Accounts receivable | 209,561 | 361,476 |
| Allowance for uncollectible | --- | (45,833) |
| Total - trade receivables | <u>209,561</u> | <u>315,643</u> |
| | | |
| Total current receivables | 29,331,281 | 33,993,574 |
| | | |
| Noncurrent receivables* | | |
| Massachusetts | | |
| Operating assistance for prior years' expenditures | 5,975,759 | 5,975,759 |
| Allowance for uncollectible | <u>(5,975,759)</u> | <u>(5,975,759)</u> |
| | | |
| Total receivables | <u>\$ 29,331,281</u> | <u>\$ 33,993,574</u> |

* The Authority recorded \$5,975,759 in operating assistance due from the Commonwealth of Massachusetts during fiscal years 2002 through 2008 to fund its operating deficits as allowed under the Massachusetts General Laws, Chapter 161b. These amounts have not yet been appropriated by the Commonwealth. In fiscal year 2010, the Authority recorded an allowance for doubtful accounts against these receivables.

The Federal government, under 49 USC section 5311, may provide assistance of up to 50% of the Authority's net operating costs for the rural fixed routes. In addition, under 49 USC sections 5307, 5309 and 5310, the Federal government may provide 80% to 100% of the cost of capital equipment and maintenance. During the year ended June 30, 2011 and 2010, the Authority was awarded American Recovery and Reinvestment funds through the Department of Transportation, of which 10% may provide for operating assistance with the remainder for capital assistance.

Massachusetts general laws require the operating assistance assessed upon local cities and towns be at least 25% of net cost of service, including new services. The local assessment can be increased by a maximum of 2.5% of the previous year's local assessment plus 25% of the cost of new service.

The Authority has a contract with the Commonwealth of Massachusetts under which Massachusetts agrees to provide operating assistance for a portion of the operating deficit remaining after any federal grants and the local assistance have been applied.

NOTE 4 - PREPAID EXPENSES CONSISTED OF THE FOLLOWING AT JUNE 30:

| | <u>2011</u> | <u>2010</u> |
|--------------|-------------------|---------------------|
| Insurance | \$ 117,964 | \$ 120,474 |
| Pension | 768,281 | 803,380 |
| Prepaid fuel | 16,807 | 140,793 |
| Other | <u>40,617</u> | <u>40,526</u> |
| Total | <u>\$ 943,669</u> | <u>\$ 1,105,173</u> |

NOTE 5 - PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING AT JUNE 30:

| | 2011 | | | Ending Balance |
|--|----------------------|---------------|-------------|-------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 265,500 | \$ --- | \$ --- | \$ 265,500 |
| Construction in progress | 6,383,505 | --- | (5,195,707) | 1,187,798 |
| Total capital assets, not being depreciated | 6,649,005 | --- | (5,195,707) | 1,453,298 |
| Capital assets, being depreciated: | | | | |
| Buildings | 20,225,730 | 225,722 | --- | 20,451,452 |
| Leasehold improvement, Holyoke MTC | --- | 2,164,568 | 5,195,707 | 7,360,275 |
| Revenue vehicles | 65,483,802 | 13,174,734 | (6,250,127) | 72,408,409 |
| Equipment | 28,300,056 | 4,679,708 | (655,708) | 32,324,056 |
| Service vehicles | 1,132,411 | 69,860 | --- | 1,202,271 |
| Total capital assets, being depreciated | 115,141,999 | 20,314,592 | (1,710,128) | 133,746,463 |
| Less accumulated depreciation for: | | | | |
| Buildings | 16,193,566 | 552,498 | --- | 16,746,064 |
| Leasehold improvement, Holyoke MTC | --- | 667,984 | --- | 667,984 |
| Revenue vehicles | 43,120,323 | 4,397,035 | (6,244,905) | 41,272,453 |
| Equipment | 22,053,885 | 2,160,866 | (655,708) | 23,559,043 |
| Service vehicles | 911,427 | 95,345 | --- | 1,006,772 |
| Total accumulated depreciation | 82,279,201 | 7,873,728 | (6,900,613) | 83,252,316 |
| Total capital assets, being depreciated, net | 32,862,798 | 12,440,864 | 5,190,485 | 50,494,147 |
| Capital assets, net | \$ 39,511,803 | \$ 12,440,864 | \$ (5,222) | \$ 51,947,445 |

During fiscal year 2011, the renovations to the Holyoke Multimodal Transportation Center were completed with approximately 3,000 square feet leased back to the Authority. The details of the lease agreement are disclosed in Note 11 on page 19.

During fiscal year 2010, the Federal Transit Administration approved the Springfield Redevelopment Authority (SRA) as a recipient for Union Station Project funds. The Project was transferred from the Authority to the SRA, and as a result, the Authority reduced its construction in process by \$14,680,409, representing planning, design and engineering costs through June 30, 2010 (see Note 9).

NOTE 5 - (Continued)

| | 2010 | | | Ending Balance |
|--|----------------------|---------------------|------------------------|----------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 265,500 | \$ --- | \$ --- | \$ 265,500 |
| Construction in progress | 17,505,909 | 3,558,005 | (14,680,409) | 6,383,505 |
| Total capital assets, not being depreciated | <u>17,771,409</u> | <u>3,558,005</u> | <u>(14,680,409)</u> | <u>6,649,005</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 18,589,977 | 1,635,753 | --- | 20,225,730 |
| Revenue vehicles | 66,148,510 | 1,819,720 | (2,484,428) | 65,483,802 |
| Equipment | 24,401,145 | 3,898,911 | --- | 28,300,056 |
| Service vehicles | 1,223,142 | --- | (90,731) | 1,132,411 |
| Total capital assets, being depreciated | <u>110,362,774</u> | <u>7,354,384</u> | <u>(2,575,159)</u> | <u>115,141,999</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 15,749,262 | 444,304 | --- | 16,193,566 |
| Revenue vehicles | 41,814,508 | 3,790,243 | (2,484,428) | 43,120,323 |
| Equipment | 20,417,186 | 1,636,699 | --- | 22,053,885 |
| Service vehicles | 896,772 | 105,386 | (90,731) | 911,427 |
| Total accumulated depreciation | <u>78,877,728</u> | <u>5,976,632</u> | <u>(2,575,159)</u> | <u>82,279,201</u> |
| Total capital assets, being depreciated, net | <u>31,485,046</u> | <u>1,377,752</u> | <u>---</u> | <u>32,862,798</u> |
| Capital assets, net | <u>\$ 49,256,455</u> | <u>\$ 4,935,757</u> | <u>\$ (14,680,409)</u> | <u>\$ 39,511,803</u> |

NOTE 6 - ACCOUNTS PAYABLE CONSISTED OF THE FOLLOWING AT JUNE 30:

| | 2011 | 2010 |
|-----------------------|---------------------|---------------------|
| Accounts payable | | |
| General vendors | \$ 2,732,404 | \$ 2,186,435 |
| Fixed route operators | 596,213 | 850,246 |
| Total | <u>\$ 3,328,617</u> | <u>\$ 3,036,681</u> |

The Springfield Area Transit Company, Valley Area Transit Company and UMass Transit are the fixed route operators for the Authority. The assets and liabilities held by the fixed route operators are owned by the Authority and consist mainly of inventory, prepaid expenses, accounts payable and accrued wages and benefits. The value of these assets less liabilities held by the fixed route operators as of June 30, 2011 and 2010 was \$596,213 and \$850,246, respectively, and are reported as fixed route operator accounts payable in the Authority's financials statements.

NOTE 7 - NOTES PAYABLE CONSISTED OF THE FOLLOWING AT JUNE 30:

The Authority is subsidized by the Commonwealth of Massachusetts for its annual "Net Cost of Service" as defined in the Massachusetts General Laws. These subsidies are funded subsequent to the year in which the costs are incurred. Therefore, the Authority issues revenue anticipation notes to cover cash flow deficiencies until funding is received.

Revenue anticipation notes consisted of the following for the year ended June 30:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| 2.00% Revenue anticipation note, due July 29, 2011 | \$ 30,000,000 | |
| 1.75% Revenue anticipation note, due July 29, 2011 | 5,400,000 | |
| 2.25% Revenue anticipation note, due July 29, 2010 | | \$ 30,000,000 |
| 1.50% Revenue anticipation note, due February 23, 2011 | | <u>5,400,000</u> |
| Total | <u>\$ 35,400,000</u> | <u>\$ 35,400,000</u> |

On July 29, 2011, the Authority issued a \$35,300,000 operating assistance anticipation note maturing on July 27, 2012 at a rate of 1.50%. The Authority repaid the \$35,400,000 notes due July 29, 2011.

Effective July 1, 2008 the Commonwealth is required pursuant to Section 10 of Chapter 161B of the Massachusetts General Laws to pay to the Authority amounts duly certified by the Administrator as necessary to pay the principal and interest on these notes if sufficient funds are not otherwise available; the obligation of the Commonwealth to pay such amounts to the Authority is a general obligation of the Commonwealth, and the full faith and credit of the Commonwealth is pledged to make such payments.

NOTE 8 - DUE TO GOVERNMENT

During fiscal year 2006, the Federal Transit Administration (FTA) conducted a review of the Authority's Union Station, Westfield and Holyoke Intermodal projects. The review disclosed that the Authority incurred ineligible costs of \$5,736,403; \$5,223,360 on the Union Station project plus accrued interest of \$115,956, \$351,324 on the Westfield project and \$45,763 on the Holyoke project, as set forth in FTA Circular OMB A-87 "Cost Principles for State, Local and Indian Tribal Governments". During fiscal year 2009, the Authority, upon discussions with the FTA, was able to reduce these ineligible costs, including the interest incurred thereon, to approximately \$1,142,638.

During fiscal year 2010, the Authority reached a final settlement with the FTA in the amount of \$1,086,142; \$102,024 on the Westfield project and \$40,616 on the Holyoke project which was paid directly back to the FTA on November 4, 2009 and \$943,502 on the Union Station project which was settled through a de-obligation of an existing federal award. In addition, the Authority wrote off \$342,155 in related liabilities which represented the remaining balance of the estimated settlement costs.

NOTE 9 - DUE TO SPRINGFIELD REDEVELOPMENT AUTHORITY

The Authority received \$4,100,000 in advanced capital funds from the Commonwealth of Massachusetts in previous years for the maintenance, design and construction of the Springfield Union Station. These funds were then advanced to the Springfield Redevelopment Authority (SRA) for the Springfield Union Station project. Due to the project being put on hold for a number of years, the SRA refunded to money to the Authority. On March 10, 2009, the Commonwealth of Massachusetts agreed that the project can move forward with the funds to be restricted and expended only on the Springfield Union Station project. As of June 30, 2010, \$218,492 of interest has been earned on the funds and \$552,118 has been spent on the Union Station project, leaving a balance of \$3,766,374 in capital advance funds.

During fiscal year 2011, the Authority entered into an agreement with the Massachusetts Department of Transportation and SRA, designating the SRA as the developer of the Union Station project. Upon execution of this agreement, the Authority transferred all project funds in its accounts plus accrued interest to the SRA.

NOTE 10 - NET ASSETS CONSISTED OF THE FOLLOWING AT JUNE 30:

| | 2011 | | | Total |
|---|---|-----------------------|------------------------|----------------------|
| | Nonspendable Invested in capital assets | Restricted Reserve | Unassigned | |
| Net loss | | | \$ (1,484,045) | \$ (1,484,045) |
| Reimbursable depreciation | \$ (22,000) | | 22,000 | --- |
| Nonreimbursable depreciation | (7,851,728) | | | (7,851,728) |
| Capital asset additions | 20,314,592 | | 26,416 | 20,341,008 |
| Loss on disposal of assets | (5,222) | | 5,222 | --- |
| Other changes* | | | (134,706) | (134,706) |
| Addition to reserve for extraordinary expenses | | \$ 91,359 | (91,359) | --- |
| Increase (decrease) in net assets | 12,435,642 | 91,359 | (1,656,472) | 10,870,529 |
| Net assets, beginning | <u>39,511,803</u> | <u>187,352</u> | <u>(11,520,505)</u> | <u>28,178,650</u> |
| Net assets, ending | <u>\$ 51,947,445</u> | <u>\$ 278,711</u> | <u>\$ (13,176,977)</u> | <u>\$ 39,049,179</u> |

A reserve has been established by the Authority, restricted for the purpose of meeting the cost of extraordinary expenses in accordance with Massachusetts General Laws Chapter 161B Section 6(q). As of June 30, 2011 and 2010, the Authority's reserve balance was \$278,711 and \$187,352, respectively.

*During fiscal year 2011, the Authority reviewed \$134,706 in old outstanding receivables due from the Commonwealth for planning expenses incurred in prior years. Upon review, the Authority discovered that the planning expenses were reimbursed through other local funds and not Commonwealth funds. Therefore, the Authority made an adjustment to remove this amount from its books as of June 30, 2011.

NOTE 10 - (Continued)

| | 2010 | | | Total |
|--|---|-----------------------|------------------------|----------------------|
| | Nonspendable Invested in capital assets | Restricted Reserve | Unassigned | |
| Net loss | | | \$ (1,579,172) | \$ (1,579,172) |
| Reimbursable depreciation | \$ (22,000) | | 22,000 | --- |
| Nonreimbursable depreciation | (5,954,632) | | | (5,954,632) |
| Capital asset additions | 10,912,389 | | | 10,912,389 |
| Union Station (Note 5) | (14,680,409) | | | (14,680,409) |
| Increase in allowance for doubtful State operating receivables (Note 3) | | | (5,975,759) | (5,975,759) |
| Debt settlement with FTA (Note 8) | | | 943,502 | 943,502 |
| Other changes (Note 8) | | | 342,155 | 342,155 |
| Addition to reserve for extraordinary expenses | | \$ 187,352 | (187,352) | --- |
| Increase (decrease) in net assets | (9,744,652) | 187,352 | (6,434,626) | (15,991,926) |
| Net assets, beginning | 49,256,455 | --- | (5,085,879) | 44,170,576 |
| Net assets, ending | <u>\$ 39,511,803</u> | <u>\$ 187,352</u> | <u>\$ (11,520,505)</u> | <u>\$ 28,178,650</u> |

NOTE 11 - OPERATING LEASES*Information Center Leases*

On July 1, 2007, the Authority entered into a 5 year operating lease for its Information Center consisting of 900 square feet on the first floor of 1331 Main Street, Springfield, MA. On May 1, 2009 the lease was amended to change the area of occupancy from the first floor to the third floor consisting of 860 square feet. In addition, the Authority will be provided two months of free rent per year over the remaining three years of the lease, which is a total of 6 months of free rent beginning on July 1, 2009 as well as a reduced rate per square foot. The Authority is responsible for a pro rata share of the facilities' common area operating costs, including the cost of gas consumption, public liability, fire and property damage insurance, real estate taxes, gardening, landscaping, snow removal, trash removal and other common area facility expenses. The lease expires on June 30, 2012 with the option to extend the lease for one additional five year term. Lease expense was \$8,772 and \$8,600 for the years ended June 30, 2011 and 2010, respectively.

On July 1, 2007, the Authority entered into a 5 year operating lease for its Information Center consisting of 360 square feet on the first floor of 1341 Main Street, Springfield, MA. The Authority is responsible for a pro rata share of the facilities' common area operating costs, including the cost of gas consumption, public liability, fire and property damage insurance, real estate taxes, gardening, landscaping, snow removal, trash removal and other common area facility expenses. The lease expires on June 30, 2012 with the option to extend the lease for one additional five year term. Lease expense was \$7,428 and \$7,283 for the years ended June 30, 2011 and 2010, respectively.

NOTE 11 - (Continued)*Transportation Center Lease*

The Authority leases transit and building space located at 1776 Main Street, Springfield, MA. On April 1, 2009 the Authority entered into a new 3 year operating lease. The leased premises consists of 470 square feet of dispatch and office area space (which was constructed by the Landlord and is to be paid solely at the Authority's expense), six bus parking bays containing 9,877 square feet, a section of the parking lot, and the right to use a portion of the concourse and public use areas at the building. The Authority is responsible for cleaning the bay area, office space area and repairs and maintenance of the leased premises (except the public use areas), as well as for its own cable, phone and any other utilities. The Authority agreed that the build out of the dispatch and office area space will be paid as additional rent in equal monthly installments and paid in full by the expiration of the initial lease term, along with payments of its monthly base rent. Lease expense, including additional rent for improvements, was \$218,093 and \$153,852 for the years ended June 30, 2011 and 2010, respectively.

The lease expires on March 31, 2012 with the option to extend the lease for up to two consecutive periods of one year each. The base rent for the leased premises shall be \$130,000 plus the greater of 4% or consumer price index (CPI).

Approximate future lease commitments payable during the years ending June 30 are as follows:

| | Leases | | | |
|------|---------------|---------------|---------------|------------|
| | 1331 Main St. | 1341 Main St. | 1776 Main St. | Total |
| 2012 | \$ 8,944 | \$ 7,572 | \$ 224,000 | \$ 240,516 |

Holyoke Multimodal Transportation Center Lease

On February 7, 2007 the Authority entered into a joint development agreement with the City of Holyoke and Holyoke Intermodal Facility, LLC, (a limited liability company created by the real estate arm of Peter Pan Bus Lines, Inc.) for the purpose of undertaking the design and construction of the renovations to a building located at 206 Maple Street, Holyoke, Massachusetts, known as the Holyoke Multimodal Transportation Center. Holyoke Intermodal Facility, LLC is the owner and lessor of the building. The Authority has a one percent (1%) interest in the Holyoke Intermodal Facility, LLC. The City of Holyoke had conveyed certain property to the owner which included a permanent restriction on approximately 3,000 square feet of space on the ground level to be used for transit purposes only. In consideration of the extent of public funding provided to the project through the Authority, the 3,000 square feet of the ground floor restricted for transit uses is leased back to the Authority free of charge in perpetuity. The project was completed in fiscal year 2011 at which time the Authority started leasing back a portion of the facility as described below.

The Authority is leasing approximately 3,000 square feet, more or less, with the right to use common areas of the building, including all driveways, parking areas and roadways serving the property. The lease commenced in September 2010 and expires on the last date of the fiftieth (50th) year following the commencement date. The Authority has the option to extend the lease for separate and successive extension periods of fifty (50) lease years each. The Authority has no obligation to pay rent, it being agreed that the public funding provided for the project was in lieu of any rent owed. Notwithstanding, the Authority does have the obligation to pay for separately metered utilities and its share of common area maintenance (CAM) charges. The CAM charges shall be paid monthly at an amount determined annually by the Lessor which include all expenses incurred by the Lessor in connection with the operation of the property, such as handymen, mechanics, electricians, supplies and materials, insurances, repairs, replacements and other allowable expenses as described in the lease agreement. The CAM charges were \$6,792 for the year ended June 30, 2011.

In the event that the Lessor should sell the property, and depending on the timing of the sales, a portion of the sales proceeds will go to the Authority as described in the joint development agreement.

NOTE 12 - PVTA PENSION PLAN**Plan Description**

The Authority provides retirement benefits to employees through the Pioneer Valley Transit Authority Pension Plan (the Plan), a single-employer pension plan. This is a defined benefit pension plan that covers all employees that work at least 1,000 hours in a twelve month consecutive period, and agree to make employee contributions. The Plan provides retirement, death and disability benefits and provides for retirement benefits of 2.50% of a member's average compensation times the number of years of service to a maximum of 32 years. Benefit payments are based upon a member's age, length of creditable service, level of compensation and classification.

Members of the Plan become fully vested after seven years of service.

Early retirement is available if the participant has reached age 55 and completed ten years of service. Normal retirement is attained at age 65, and deferred retirement is attained at any age after 65.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. The Plan's report can be obtained by writing to Pioneer Valley Transit Authority, 2808 Main Street, Springfield, Massachusetts 01107 or by calling (413)732-6248.

Annual Pension Cost and Net Pension Asset

The Authority's annual pension cost and net pension asset for the years ended June 30, were as follows:

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Annual required contribution | \$ 329,975 | \$ 362,429 |
| Interest on net pension obligation | (46,194) | (51,198) |
| Adjustment to annual required contribution | (57,007) | (62,151) |
| Annual pension cost | 226,774 | 249,080 |
| Contributions made | (191,675) | (162,058) |
| Increase (decrease) in net pension obligation | 35,099 | 87,022 |
| Net pension asset at beginning of year | (803,380) | (890,402) |
| Net pension asset at end of year | <u>\$ (768,281)</u> | <u>\$ (803,380)</u> |

NOTE 12 - (Continued)**Funding Policy and Actuarial Assumptions**

The board of trustees of the Plan established the contribution requirement; however, the Authority may amend these requirements. The Plan requires members to contribute 4% of their payroll, and requires the Authority to contribute an amount equal to approximately 17.85% of the total member payroll. The actuarial method and assumptions for the plan are as follows:

| | |
|--|---------------------|
| Valuation date | July 1, 2011 |
| Actuarial cost method | Frozen entry age |
| Amortization method | Level dollar closed |
| Remaining amortization period initial unfunded | 26 years |
| Asset valuation method | Market value |
| Investment rate of return | 5.75% |
| Projected salary increase | 3.50% |
| Cost-of-living adjustments | None |

Three Year Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Certain information for the Plan for the last three years is presented below.

| Plan Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Asset |
|---------------------|---------------------------------|-------------------------------------|----------------------|
| 06/30/09 | \$ 261,371 | 193% | \$ 890,402 |
| 06/30/10 | \$ 249,080 | 65% | \$ 803,380 |
| 06/30/11 | \$ 226,774 | 85% | \$ 768,281 |

Schedule of Funding Progress

The Schedule of Pension Funding Progress included in supplementary information following the notes to the financial statements presents multi-year trend information that reveals the actuarial value of the plan assets decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 13 - SATCO PENSION PLAN

The liabilities for the pension plans of the Authority's major transportation provider, Springfield Area Transportation Company, Inc. (SATCo) are included in the Authority's financial statements under transportation expenses and accrued expenses. The Authority is responsible for funding these expenses of SATCo.

Plan Descriptions

SATCo provides retirement benefits to its union employees through two single-employer defined benefit plans, SATCo Employees Retirement Plan (SERP) and Transit Employees Retirement Plan (TERP).

SATCo also provides retirement benefits to nonunion employees through a defined benefit plan, The Transit Management Pension Plan (TMP).

Transit Employees Retirement Plan, a plan subject to the provisions of the Employment Retirement Income Security Act (ERISA), covers only members of the Amalgamated Transit Union Local No. 448 AFL-CIO (the Union) who were plan participants as of June 30, 2008. The TERP plan, as of June 30, 2008, was frozen and employee contributions were discontinued, upon adoption of the SATCo Employees Retirement Plan (SERP). Prior to June 30, 2008, employees could become members of the plan on their forty-fifth day of employment.

The TERP plan provides retirement benefits in the form of an annuities payable monthly for life, commencing on the date of retirement and terminating the month prior to death. The benefit is \$40 multiplied by the years of credited service through June 30, 2008 when the plan was frozen. Pension provisions also include death and disability benefits, whereby the disabled employee or surviving spouse is entitled to receive a reduced annual benefit.

Members of the TERP plan became vested after five years of service. Retirement is available if a participant has reached the age of 55 with 10 years of service. Normal retirement is attained at age 65.

For the years ended June 30, 2011 and 2010, SATCo's pension expense for the TERP plan was \$1,008,058 and \$962,166. The unfunded present value of accumulated benefits as of July 1, 2010 was \$2,721,587.

The SATCo Employees Retirement Plan (SERP) was adopted on July 1, 2008. This plan is a governmental plan within the means of Section 414(d) of the Internal Revenue Code and Sections 3(32) and 4021(b)(d) of ERISA and is exempt from funding rules under Title I of ERISA. Pioneer Valley Transit Authority is the Plan Sponsor for the SERP plan. The SERP plan is available to all employees of SATCo who were members of the TERP plan or have completed 45 days of employment and agree to join the plan by making the necessary member contributions. Retirement, death and disability benefits are the same as under the TERP plan.

For the years ended June 30, 2011 and 2010, SATCo's pension expense for the SERP plan was \$200,000 and \$414,189 and the unfunded present value of accumulated benefits was \$400,260 and \$222,625.

The TMP plan, which is also subject to the provisions of ERISA, covers SATCo's nonunion employees who are not covered under the SERP and TERP plans. SATCo is the Plan Sponsor for the TMP plan. Eligible participants must work at least 1,000 hours in a twelve month consecutive period and contribute 4% of their annual compensation into the plan.

The TMP plan provides for benefits in the form of an annuity payable for life, with 120 minimum monthly payments guaranteed. The benefit is 2.25% of the average compensation, calculated using the average of the participants' five highest paid consecutive years of service prior to retirement, termination or disability, multiplied times the number of years of service up to 35 years. Pension provisions also include death and disability benefits whereby the disabled employee or surviving spouse is entitled to receive a reduced annual benefit.

Members of the TMP plan become fully vested after seven years of service. Retirement is available for participants who have reached the age of 55 with 10 years of service. Normal retirement is attained at age 65.

NOTE 13 - (Continued)

For the years ended June 30, 2011 and 2010, SATCo's pension expense for the TMP plan was \$52,707 and \$265,538 and the unfunded present value of accumulated benefits was \$28,649 and \$257,304.

The TERP and SERP plans issue separate financial statements with required supplemental information for the plans. These plan reports are available to participants of the plans at Springfield Area Transportation Company, Inc., 2840 Main Street, Springfield, Massachusetts, 01107.

The TMP plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. This report can be obtained by writing to Pioneer Valley Transit Authority, 2808 Main Street, Springfield, Massachusetts 01107 or by calling (413)732-6248.

Annual Pension Cost and Net Pension Asset

SATCo's annual pension cost and net pension obligation for the TMP plan for the years ended June 30, were as follows:

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Annual required contribution | \$ 101,576 | \$ 140,390 |
| Contributions made | (152,707) | (165,538) |
| Increase (decrease) in net pension obligation | (51,131) | (25,148) |
| Other adjustments and assumption changes | (5,907) | --- |
| Net pension (asset) obligation at beginning of year | 314,342 | 339,490 |
| Net pension (asset) obligation at end of year | <u>\$ 257,304</u> | <u>\$ 314,342</u> |

Funding Policy and Actuarial Assumptions

The Plan requires members to contribute 4% of their payroll, and requires the Authority to contribute an amount equal to approximately 10% of the total member payroll. The actuarial method and assumptions for the plan are as follows:

| | |
|--|-------------------------------------|
| Valuation date | July 1, 2010 |
| Actuarial cost method | Traditional unit credit cost method |
| Amortization method | Level dollar |
| Remaining amortization period initial unfunded | 7 years |
| Asset valuation method | Market Value |
| Investment rate of return | 6.60% |
| Projected salary increase | 3.50% |
| Cost-of-living adjustments | N/A |

Schedule of Funding Progress

The Schedule of Funding Progress for the TMP plan included in supplementary information following the notes to the financial statements presents multi-year trend information that reveals the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 13 - (Continued)

Additional pension disclosures required by generally accepted accounting principles were not available for presentation for SATCo's TERP and SERP plans, but management of the Authority feels this information would not have a material effect on the financial statements.

Three-Year Trend Information - Transit Management Pension Plan

| Plan Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------|---------------------------------|-------------------------------------|---------------------------|
| 06/30/09 | \$ 116,836 | 109% | \$ 339,490 |
| 06/30/10 | \$ 140,390 | 118% | \$ 314,342 |
| 06/30/11 | \$ 101,576 | 150% | \$ 257,304 |

NOTE 14 - PVTA OTHER POSTEMPLOYMENT BENEFITS

Effective July 1, 2008, the Authority adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (OPEB). This statement establishes accounting and financial reporting requirements for employers to measure and report the cost and liabilities associated with other (than pension) post-employment benefits (or OPEB). It imposes similar accounting rules for healthcare benefits (and other retirement benefits) as those now in place for pension benefits. The Authority applied GASB No. 45 on a prospective basis.

Plan Description

The Pioneer Valley Transit Authority Retiree Welfare Plan is a single-employer defined benefit plan which provides for medical and dental insurance benefits to eligible retirees and their spouses. Employees become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service. The plan is a cost sharing plan with employees paying 15% of medical and dental premiums in retirement. As of June 30, 2011, there were 28 plan members of which 7 were retirees.

The Pioneer Valley Transit Authority Retiree Welfare Plan does not issue separate financial statements. In accordance with GASB Statement No. 45, the Authority is not required to have its actuarial calculation for other post-employment benefit obligations updated annually. The following actuarial information was derived from the plans valuation as of July 1, 2010.

Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended through Authority ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For fiscal year 2011, total Authority premiums plus implicit costs for the retiree medical program are \$94,912.

Annual OPEB Costs and net OPEB Obligation

The Authority's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Authority's annual OPEB costs for the fiscal years ended June 30, 2011 and 2010, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based upon the actuarial valuations as of June 30, 2010 and 2009:

NOTE 14 - (Continued)

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Annual required contribution (ARC) | \$ 390,805 | \$ 414,930 |
| Interest on net OPEB obligation | 24,320 | 13,007 |
| Adjustment to annual required contribution | <u>(33,808)</u> | <u>(18,082)</u> |
| Annual OPEB cost | 381,317 | 409,855 |
| Contributions made | <u>(94,912)</u> | <u>(127,046)</u> |
| Increase (decrease) in net pension obligation | 286,405 | 282,809 |
| Other adjustment | --- | 151,633 |
| Net OPEB obligation at beginning of year | <u>607,995</u> | <u>173,553</u> |
| Net OPEB obligation at end of year | <u>\$ 894,400</u> | <u>\$ 607,995</u> |

Three Year Trend Information

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

| Plan Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------------|---|------------------------|
| 6/30/09 | \$ 435,304 | 60% | \$ 173,553 |
| 6/30/10 | \$ 409,855 | 31% | \$ 607,995 |
| 6/30/11 | \$ 381,317 | 25% | \$ 894,400 |

Funded Status and Funding Progress

As of July 1, 2010, the most recent valuation date, the actuarial liability for benefits was \$2.502 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.502 million, and the ratio of the UAAL to the covered payroll was 226%.

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

NOTE 14 - (Continued)**Actuarial Methods and Assumptions**

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

Valuation Date: July 1, 2010

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 4.00% per annum

Healthcare Cost Trend Rates:

Assumed a 1.2% increase in medical costs for the 2011 fiscal year (based on actual experience), increasing by 7.0% in the 2012 fiscal year decreasing by 1.0% per year until reaching the ultimate medical trend rate of 5.0% per year.

General Inflation Assumption: 3.5% per annum

Annual Compensation Increases: N/A

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortized as level dollar amount over 30 years with 27 years remaining at June 30, 2011

NOTE 15 - SATCO OTHER POSTEMPLOYMENT BENEFITS

The liability for other post employment benefits of the Authority's major transportation provider, Springfield Area Transit Company, Inc. (SATCo) is included in the Authority's financial statements under transportation expense and long-term accrued expenses. The Authority is responsible for funding these expenses of SATCo.

Effective July 1, 2007, SATCo adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (OPEB).

Plan Description

Springfield Area Transportation Company, Inc. provides for medical insurance benefits to eligible retirees and their spouses. For employees hired after July 1, 1990, an employee becomes eligible to retire under this plan upon attainment of age 55 with 20 years of service; age 60 with 25 years of service; or age 65 with 30 years of service. For employees hired prior to July 1, 1990, an employee shall become eligible to retire under this plan upon the attainment of age 55 as an active member and completion of 10 years of service. As of July 1, 2010, there were 194 plan members of which 69 were retirees. The retiree base cost-sharing percentages are:

| | |
|--------------|-----|
| Pre-age 65* | 25% |
| Post-age 65* | 0% |
| Medex III | 10% |

*For employees hired prior to 7/1/1990, SATCo contribution is pro-rated for service less than 20 years, with retiree paying proportionally more.

Springfield Area Transportation Company, Inc. does not issue separate financial statements on this plan.

NOTE 15 - (Continued)**Funding Policy**

The contribution requirements of plan members and SATCo are established and may be amended through SATCo ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For fiscal year 2011 and 2010, SATCo premiums plus implicit costs for the retiree medical program were \$581,000 and \$499,000.

Annual OPEB Cost and Net OPEB Obligation

SATCo's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of SATCo's annual OPEB costs for the fiscal years June 30, the amount actually contributed to the plan and changes in SATCo's net OPEB obligation to the plan:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Annual required contribution (ARC) | \$ 1,979,000 | \$ 1,855,000 |
| Interest on net OPEB obligation | 217,000 | 166,000 |
| Adjustment to annual required contribution | <u>(326,000)</u> | <u>(244,000)</u> |
| Annual OPEB cost | 1,870,000 | 1,777,000 |
| Contributions made | <u>(581,000)</u> | <u>(499,000)</u> |
| Increase (decrease) in net pension obligation | 1,289,000 | 1,278,000 |
| Other adjustment | --- | 54,082 |
| Net OPEB (asset) obligation at beginning of year | <u>5,429,000</u> | <u>4,096,918</u> |
| Net OPEB (asset) obligation at end of year | <u>\$ 6,718,000</u> | <u>\$ 5,429,000</u> |

Three Year Trend Information

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

| Plan Year Ending | Annual OPEB Cost | Percentage of annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------------|---|------------------------|
| 06/30/09 | \$ 2,476,000 | 15.3% | \$ 4,096,918 |
| 06/30/10 | \$ 1,777,000 | 28.1% | \$ 5,429,000 |
| 06/30/11 | \$ 1,870,000 | 31.1% | \$ 6,718,000 |

NOTE 15 - (Continued)**Funded Status and Funding Progress**

As of June 30, 2011, the most recent valuation date, the plan was zero funded. The actuarial liability for benefits was \$18.8 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$18.8 million.

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

Actuarial Methods and Assumptions

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

Valuation Date: June 30, 2011

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: N/A

Annual Compensation Increases: N/A

Medical Inflation: 7.73% (pre-Medicare) and 4.93% (post-Medicare) grading to 4.0% over 14 years

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortized as level dollar amount over 30 years with 26 years remaining at June 30, 2011

NOTE 16 - FIXED ROUTE INCOME CONSISTED OF THE FOLLOWING FOR THE YEARS ENDED JUNE 30:

| | 2011 | | Variance Favorable (Unfavorable) | 2010 Actual |
|----------------|---------------------|---------------------|--|---------------------|
| | Budget | Actual | | |
| Fare income | \$ 4,076,496 | \$ 4,245,836 | \$ 169,340 | \$ 4,058,403 |
| Adult passes | 1,097,180 | 1,198,729 | 101,549 | 1,166,113 |
| College passes | 327,925 | 406,056 | 78,131 | 397,024 |
| Daily passes | 11,300 | 19,608 | 8,308 | 15,651 |
| Weekly passes | 69,380 | 86,830 | 17,450 | 68,721 |
| Tokens | 71,095 | 93,516 | 22,421 | 80,681 |
| Total | <u>\$ 5,653,376</u> | <u>\$ 6,050,575</u> | <u>\$ 397,199</u> | <u>\$ 5,786,593</u> |

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES*Fiscal year 2012 budget*

For the fiscal year 2012, the Authority has approved an operating budget of \$37,629,067, which excludes depreciation expense. This budget includes grant-matching expenditures, which the Authority is required to meet as its share of Federal and State programs.

Federal and State funding

The Authority participates in a number of Federal and State grant programs. Accordingly, the Authority's compliance with the applicable grant requirements will be established at some future date. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

Risk management

The Authority is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, natural disasters, and workers compensation claims for which the Authority carries commercial insurance.

Litigation and self insurance

In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse affect on the Authority's financial position

The Authority is self-insured for property damage and personal injury related to operations to a maximum amount of \$1 million per incident. An excess liability, up to a maximum of \$5 million of losses per policy year, is covered by comprehensive insurance policies. It is the policy of the Authority to record a liability for reported claims as well as claims incurred and not yet reported based on a review of specific claims and incidents. Insurance claims have not exceeded insurance coverage in the past three years. At June 30, 2011, the Authority's insurance claims reserve is \$1,250,000 for the self insured portion of the risks associated with property damage and personal injury.

A summary of the activity in the claims liability account during the year ended June 30 are as follows:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Insurance claims reserve, beginning | \$ 1,500,000 | \$ 1,034,595 |
| Increase in reserve for claims provisions | 88,215 | 790,755 |
| Claims paid | <u>(338,215)</u> | <u>(325,350)</u> |
| Insurance claims reserve, ending | <u>\$ 1,250,000</u> | <u>\$ 1,500,000</u> |

PIONEER VALLEY TRANSIT AUTHORITY

Required Supplementary Information - Pension Funding Progress

June 30, 2011

Pioneer Valley Transit Authority:

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b - a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | UAAAL as a % of Covered Payroll |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|--|
| 07/01/09 | \$ 2,034,948 | \$ 3,493,007 | \$ 1,458,059 | 58% | \$ 1,047,748 | 139% |
| 07/01/10 | \$ 2,236,771 | \$ 4,063,868 | \$ 1,827,097 | 55% | \$ 1,077,011 | 170% |
| 07/01/11 | \$ 2,838,057 | \$ 4,330,438 | \$ 1,492,381 | 66% | \$ 1,073,683 | 139% |

Springfield Area Transit Company, Inc:

SERP

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b - a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | UAAAL as a % of Covered Payroll |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|--|
| 07/01/09 | \$ 227,867 | \$ 450,492 | \$ 222,625 | 51% | N/A | N/A |
| 07/01/10 | \$ 642,413 | \$ 1,042,673 | \$ 400,260 | 62% | N/A | N/A |

Information not available prior to July 1, 2009.

Transit Management Plan

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b - a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | UAAAL as a % of Covered Payroll |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|--|
| 07/01/08 | \$ 840,576 | \$ 1,086,251 | \$ 245,675 | 77% | \$ 425,282 | 58% |
| 07/01/09 | \$ 773,978 | \$ 1,113,468 | \$ 339,490 | 70% | \$ 466,990 | 73% |
| 07/01/10 | \$ 1,032,577 | \$ 1,289,881 | \$ 257,304 | 80% | \$ 554,972 | 46% |

PIONEER VALLEY TRANSIT AUTHORITY

**Required Supplementary Information - Retiree Health Plan Funding Progress
Other Post Employment Benefits**

June 30, 2011

Pioneer Valley Transit Authority Retiree Welfare Plan:

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b - a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | ([b - a]/c) UAAL as a % of Covered Payroll |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|--|
| 07/01/08 | \$ --- | \$ 4,532,401 | \$ 4,532,401 | 0% | \$ 1,054,292 | 430% |
| 07/01/09 | \$ --- | \$ 4,772,371 | \$ 4,772,371 | 0% | \$ 1,064,727 | 448% |
| 07/01/10 | \$ --- | \$ 2,501,977 | \$ 2,501,977 | 0% | \$ 1,106,502 | 226% |

Springfield Area Transit Company, Inc. - Other Post-Employment Benefits:

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) Frozen Entry Age | (b - a) Unfunded AAL (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | ([b - a]/c) UAAL as a % of Covered Payroll |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|--|
| 06/30/09 | \$ --- | \$ 24,400,000 | \$ 24,400,000 | 0% | \$ 10,004,396 | 244% |
| 06/30/10 | \$ --- | \$ 17,800,000 | \$ 17,800,000 | 0% | \$ 10,229,063 | 174% |
| 06/30/11 | \$ --- | \$ 18,823,000 | \$ 18,823,000 | 0% | \$ 10,401,243 | 181% |

PIONEER VALLEY TRANSIT AUTHORITY
STATEMENT OF NET COST OF SERVICE
For the Year Ended June 30,

| | Total Service Area 2011 | Total Service Area 2010 |
|--|-------------------------------|-------------------------------|
| | <u>2011</u> | <u>2010</u> |
| Operating costs | | |
| Administrative costs | \$ 3,352,597 | \$ 3,636,501 |
| Purchased services | | |
| Fixed route | 25,519,440 | 26,224,917 |
| Paratransit | 7,545,643 | 7,498,439 |
| Shuttle | 298,434 | 287,480 |
| Debt service | 593,646 | 646,779 |
| Less other post employment benefits required by GASB 45 that will not be funded | <u>(1,575,404)</u> | <u>(1,766,524)</u> |
| Total operating costs | <u>35,734,356</u> | <u>36,527,592</u> |
| Operating assistance and revenues | | |
| Federal operating and administrative assistance | <u>5,847,871</u> | <u>7,297,699</u> |
| Revenues | | |
| Local revenues | | |
| Fixed route | 6,050,575 | 5,786,593 |
| Paratransit | 661,034 | 654,084 |
| Shuttle | 27,356 | 29,248 |
| Advertising | 220,570 | 268,228 |
| Miscellaneous | 90,708 | 9,687 |
| Interest | <u>40,051</u> | <u>38,843</u> |
| Total local revenues | <u>7,090,294</u> | <u>6,786,683</u> |
| Other operating assistance | <u>110,000</u> | <u>110,000</u> |
| Total operating assistance and revenues | <u>13,048,165</u> | <u>14,194,382</u> |
| Net operating deficit | 22,686,191 | 22,333,210 |
| Increase (use) in reserve for extraordinary expense | <u>91,359</u> | <u>187,352</u> |
| Net cost of service | <u>\$ 22,777,550</u> | <u>\$ 22,520,562</u> |
| Local assessments | \$ 6,561,208 | 6,401,179 |
| State contract assistance | <u>16,216,342</u> | <u>16,119,383</u> |
| Total | <u>\$ 22,777,550</u> | <u>\$ 22,520,562</u> |



Adelson Moynihan Kowalczyk PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

Richard F. LaFleche, CPA
 Vincent T. Viscuso, CPA
 Gary J. Moynihan, CPA
 Karen M. Kowalczyk, CPA
 Carol Leibinger-Healey, CPA

Associates

Russell A. Faerber, CPA
 David M. Irwin, Jr., CPA
 Peter R. Ronan, CPA
 Jennifer J. Stark, CPA
 Sarah P. Voisin, CPA

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 of the
PIONEER VALLEY TRANSIT AUTHORITY
 2808 Main Street
 Springfield, MA 01107

We have audited the financial statements of the business-type activities of Pioneer Valley Transit Authority, a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2011, which comprise Pioneer Valley Transit Authority's basic financial statements and have issued our report thereon dated September 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pioneer Valley Transit Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pioneer Valley Transit Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pioneer Valley Transit Authority's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pioneer Valley Transit 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 have reported to management of Pioneer Valley Transit Authority in a separate letter dated September 14, 2011.

This report is intended solely for the information and use of management, the Advisory Board, the finance committee, 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.

Adelson Moynihan Kowalczyk PC

ADELSON MOYNIHAN KOWALCZYK PC

September 14, 2011