

Southeast Area Transit District

**Independent Auditors' Reports and
Management's Financial Statements**

June 30, 2018

Ron L. Beaulieu & Company

CERTIFIED PUBLIC ACCOUNTANTS

SOUTHEAST AREA TRANSIT DISTRICT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southeast Area Transit District
Preston, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Area Transit District as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Management has not recorded in-kind revenues and expenses associated with donated bus and equipment leases from the State of Connecticut. Accounting principles generally accepted in the United States of America require that in-kind donations be represented as revenue and either as an expense or asset. Without these transactions, capital assets-net is understated, and net position is understated. The amount by which this departure would affect the assets, net position, and revenues has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Area Transit District, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3.1 through 3.10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2019 on our consideration of Southeast Area Transit District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Area Transit District’s internal control over financial reporting and compliance.

Ron L. Beaulieu & Co.

Portland, Maine
January 30, 2019

Management's Discussion and Analysis Introduction

Annual reports provide information about the proprietary fund of the Southeast Area Transit District. This fund show restrictions on the planned use of resources or measured, in the short term, the revenues and expenditures arising from certain activities. GASB Statement 34 requires that the managers of the Southeast Area Transit District focus on this fund.

The proprietary fund financial statements will continue to measure and report the “operating results” by measuring cash on hand and other assets that can easily be converted to cash. These statements show the short-term performance of funds using the same measures governments use when financing current operations. On the other hand, if we charge a fee to users for services, fund information will continue to be based on accrual accounting. Showing budgetary compliance has always been an important part of governmental accountability.

We hope to provide an objective and readable analysis of our financial performance for the year. Taken together, the following statements should enable one to assess whether the Southeast Area Transit District’s financial position has improved or deteriorated as a result of the year’s operations. The annual report includes proprietary fund financial statements prepared on the accrual basis for all Southeast Area Transit District’s activities. Accrual accounting measures not just current assets and current liabilities, but long-term assets and liabilities as well. It also reports all revenues and all costs of providing services each year, not just those received or paid in the current fiscal year (or shortly thereafter).

In sum, the proprietary fund financial statements help to:

- ❑ Assess the finances of the Southeast Area Transit District in its entirety, including the year’s operating results;
- ❑ Determine whether our overall financial position improved or deteriorated;
- ❑ Evaluate whether our current-year revenues were sufficient to pay for current-year services;
- ❑ Show the costs of providing the services requested of us;
- ❑ See how we finance the programs requested – through user fees, state and federal grants, community assessments, and other program revenues;
- ❑ Make better comparisons between governments. The Annual Financial Report includes the following information and financial statements as defined by GASB Statement 34.

- ✱ ***Management’s Discussion and Analysis (MD & A)*** – An introduction to the basic financial statements and an analytical overview of the District’s financial activities. The MD & A provides an objective and easily readable analysis of the Southeast Area Transit District’s financial activities based on currently known facts, decisions, or conditions. The MD & A

- Includes comparisons of the current year to the prior year based on government-wide information;
- Provides an analysis of our overall financial position and the results of operations to assist in assessing whether our financial position has improved or deteriorated as a result of the year's activities;
- Analyzes significant changes in fund and major budget variances;
- Concludes with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on our financial position or the results of our operations.

* ***Proprietary Fund Financial Statements*** are designed to provide a broad overview of the Southeast Area Transit District's finances, in a manner similar to private-sector business.

- They include a *statement of net position* which presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Unlike Operations reports, GAAP requires all capital revenues, capital expenses and depreciation, as well as operations expense and revenues, be included in Net Position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *statement of revenues, expenses and changes in net position* presents information showing how the government's *net position* changed during the most recent fiscal year. All changes in *net position* are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The statement of revenues, expenses and changes in net position is prepared using the economic resources measurement focus and the accrual basis of accounting. These statements report all assets, liabilities, revenues, expenses, and gains and losses of the District. The proprietary fund financial statements reflect that Southeast Area Transit District recovers a significant portion of its costs through user fees and charges. The proprietary activities of the District consist primarily of providing public transportation to the citizens of its member towns.
- Expenses are presented reduced by program revenues, resulting in a measurement of "net (expense) revenue" for each of the government's functions. Program expense includes all direct expenses. General revenues such as fares, grants, special and extraordinary items are reported separately, ultimately arriving at the change in *net position* for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management.

✱ Notes to the Financial Statements

- Provide information essential to understanding of the data in the proprietary fund financial statements.
- Supplementary Information
 - Combining Statement of Net Position, Combining Statement of Revenues, Expenses and Changes in Net Position and Schedule of Revenues, Functional Expenses and Changes in Net Position.

We hope the financial reporting model will serve as a more comprehensive way to demonstrate our stewardship in the long term in addition to the way we currently demonstrate our management in the short term and through the budgetary process.

As management of the Southeast Area Transit District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Southeast Area Transit District for the fiscal year ended June 30, 2017.

Non-Financial Highlights

For overview SEAT provides the following key events occurring in FY 2018, some of which have contributed to the Financial Highlights that follow:

- A 3 Year Labor Contract with ATU became effective 7/1/2017. This contract was settled with reasonable wage increases of 2%, 2.5%, and 2.25%.
- A new Health Insurance Contract was established with the State Municipal Health Care program provided through UHC Oxford Insurance. This resulted in an improved policy and substantial savings.
- Preparation for and completion of the Federal Transportation Administration Triennial Review at SEAT in March of 2018, with review and corrections based on findings completed in July of 2018.
- Capital Purchase of (11) new NewFlyer replacement buses received in May and June and was followed by the installation of GPS Locator System, Motorola Radios, GFI Fareboxes, and Apollo Mobile Security equipment installation, as well as New Flyer repairs to a new steering system. In addition, other capital projects were completed during the year including a new VOIP Phone System and installation of Apollo Video on our existing fleet.
- Two major concerns arose in FY 2018:

- In February 2018, the State DOT announced the probability of a 15% cut in the State funding for Fixed Route and ADA programs. This funding cut would apply only to the (9) independent districts including SEAT. This resulted in immediate planning and adjustment to FY 2018 spending as well as FY 2019. This was ultimately resolved in June and July with a 2.5% funding increase approved for maintenance of “current service levels”.
- The second major concern was the decline in ridership and passenger fare revenue continuing through FY 2018. The decrease in FY 2018 (-5.1%) was substantially less than in FY 2017 (-14.7%), and the decline appears to be further subsiding in FY 2019. This has resulted in passenger fares and other revenues such as advertising, declining to 19% of total cost from a high of 22%. Part of this resulted from the loss of revenues from Three Rivers College ridership and special transit subsidy (addressed later).

Financial Highlights

As of the close of the current fiscal year, the District’s governmental funds reported combining ending fund balances of \$7,729,036 in FY 2018. This fund balance represents \$7,303,660 investment in capital assets, with the balance of \$425,376 considered an *unrestricted fund* balance. This included depreciation decreasing capital assets by \$299,194 (See Table 1). The depreciable Fixed Asset purchases in FY 2018 included (6) 35’ and (5) 40’ NewFlyer heavy duty buses, (3) new support SUVs, Apollo Video Technology equipment for Mobile Security, and Total Communications equipment for Facility Communications.

As stated above, SEAT looks primarily at operations expense, as those from which the deficit or surplus is determined. For reference readers should understand that operations expense is defined for our purpose as labor, fringe benefits, materials, building and vehicle maintenance, and administrative expense, and does not include capital grant funded purchases, depreciation, or in-kind revenue and expense.

- SEAT in FY 2018 is reporting a year-end *operations surplus (excluding capital and depreciation)* of \$26,520 (see Table 2). In FY 2017 the operations deficit was -\$27,016. The operations deficit covers only management-controlled costs and revenues that can contribute directly to a surplus or deficit. This operations surplus reflects a surplus of \$110,509 for Fixed Route with a deficit in ADA Service of -\$83,989.
- *SEAT FY 2018 Operations Budget Performance:* The planned expense and revenue for FY 2018 was \$6,334,759. SEAT underran the budget for both operations revenue (-\$178,833) and operations expense (-\$205,509). *The expense underrun more than offset the revenue underrun resulting in the FY 2018 operations surplus of \$26,676 (Table 2).* The planned revenue increase

did not materialize with both passenger fare revenues and ridership decreasing.

- *SEAT CT DOT Fixed Route operations subsidies* were planned with a CTDOT directed budget for FY 2018 of \$4,305,741, the same as FY 2017. SEAT was able to offset contract wage and inflation increases with significant savings due to the new Health Insurance policy (-178,081), and significantly reduced maintenance materials expense (-\$109,901).
- *SEAT CT DOT ADA Paratransit Operations subsidy* for FY 2018 was held at \$163,128, the same as FY 2017. This deficit grew again in FY 2018 due to continuing increases in ridership and implementation of new operator wage rates by the contractor. The significant increase in ADA ridership (6,577 in FY 2018 vs 5,914 in FY 2017 (+11.2%)) is cited as the primary cause of the increase in deficit to \$-83,989.
- *SEAT Capital highlights* for FY 2018 were significant. The major projects were mentioned under non-financial highlights above and resulted in increasing our Fixed Assets \$5,475,000. In addition, capital expenditures will be strong in FY2019 with the delivery in February 2019 of four additional 30' replacement buses, in addition to other projects.
- The Southeast Area Transit District did renew the Peoples Bank \$1,000,000 Commercial Line of Credit loan for future borrowing requirements. This was completed in June of FY 2018. The District's short-term debt was \$100,304 as of June 30, 2018, \$110,000 lower than FY 2017.

Proprietary Fund Analysis:

As noted earlier, *net position* may serve over time as a useful indicator of a government's financial position. In FY 2018 Southeast Area Transit District's *net position* exceeded liabilities by \$7,729,036 at the close of the year. Of these assets \$425,376 is defined as *unrestricted* and is available to meet short-term liabilities such as payments for vehicle operations and maintenance, non-vehicle maintenance, and general administration expenses.

Also noted, in FY 2018 the land & buildings and all rolling stock, other than the (2) heavy duty buses, (5) cutaway buses, and (11) replacement buses, are owned by the State of Connecticut and thus do not appear as assets on the District's financial statements. The Capital Assets shown below include only those depreciable assets with value greater than \$5,000 and were purchased under SEAT direct capital grants (not through CTDOT). SEAT procurement of some capital assets, began in FY 2010, and now includes all rolling stock and equipment. As a result, SEAT has been and will continue to show steady increases in capital assets.

	Proprietary Activities 2018	Proprietary Activities 2017
Current and Other Assets	\$3,233,424	\$921,963
Capital Assets	\$7,303,660	\$2,127,835
Total Assets	\$3,049,798	\$3,049,798
Long-Term Debt Outstanding	-	-
Other Current Liabilities	\$2,808,048	\$501,004
Total Liabilities	\$2,808,048	\$501,004
Net Position:		
Net Invested in Capital Assets	\$7,303,660	\$2,127,835
Unrestricted (deficit)	\$425,376	\$420,959
Total Net Position	\$7,729,036	\$2,548,794

Total operations expense in FY 2018, *excluding capital purchases, in-kind expenses, and depreciation*, was \$6,129,250 and was offset by \$6,155,926 in operations revenue, with an operations surplus of \$26,676. A breakdown of operations expense is shown in Table 2. Most of the District's operations revenue of \$6,155,926 was from operations subsidies from the State of Connecticut (\$4,468,415), local subsidy received from the District's nine-member towns (\$540,858), and charges for services such as passenger fares and receipts from advertising (\$1,146,653).

The Southeast Area Transit District also received other cash and non-cash revenues for capital (\$5,682,010) and the in-kind rental value of our leased facility (\$749,187). These capital and in-kind revenues were provided by the State of Connecticut (\$1,942,474) and the Federal Transit Administration (\$4,488,723).

Proprietary Operations Activities: Below is a summary of the Southeast Area Transit District consolidated operations revenue and expense. This chart includes both Fixed Route and ADA services:

	Proprietary Activities 2018	Proprietary Activities 2017
Program Revenues:		
Revenue from Services	\$ 1,146,653	\$ 1,225,694
Operations Grants and Local Government Contributions	\$ 5,009,273	\$ 4,988,303
General Revenues Total:	\$ 6,155,926	\$ 6,213,997
Program Expenses:		
Payroll	\$ 2,639,416	\$ 2,590,842
Fringe Benefits and taxes	\$ 1,796,500	\$ 1,871,451
Services	\$ 357,562	\$ 559,690
Materials & Supplies	\$ 855,853	\$ 1,038,896
Other excluding Depreciation	\$ 479,920	\$ 180,134
Total Operations Expense	\$ 6,129,250	\$ 6,241,013
Operations Surplus/(Deficit)	\$ 26,676	\$ (27,016)

Passenger fare revenues decreased substantially (-6.4%) from FY 2017. This continues to present considerable concern. The passenger fare revenue chart below shows significant decreases. These decreases are matched with significant reductions in ridership declining -5.1% (see Ridership Chart below).

SEAT continues to analyze the data and is trying to determine the causes and effects that are causing the decline in ridership. SEAT is including as possible causes the demographics of possible employment changes, the effect of lower gas prices possibly providing an inexpensive alternative, and the possibility that a part of our ridership is reducing the number of day trips due to the higher cost. In addition, SEAT suffered a significant loss in farebox and special transit services revenue provided by Three Rivers Community College. This was due to the State's implementation of the CTDOT UPASS program. This program provides free ridership to all college students registered in publicly supported colleges and universities. This loss of revenue in FY 2018 is estimated to have been \$30,283, or 38% of the revenue decline shown below.

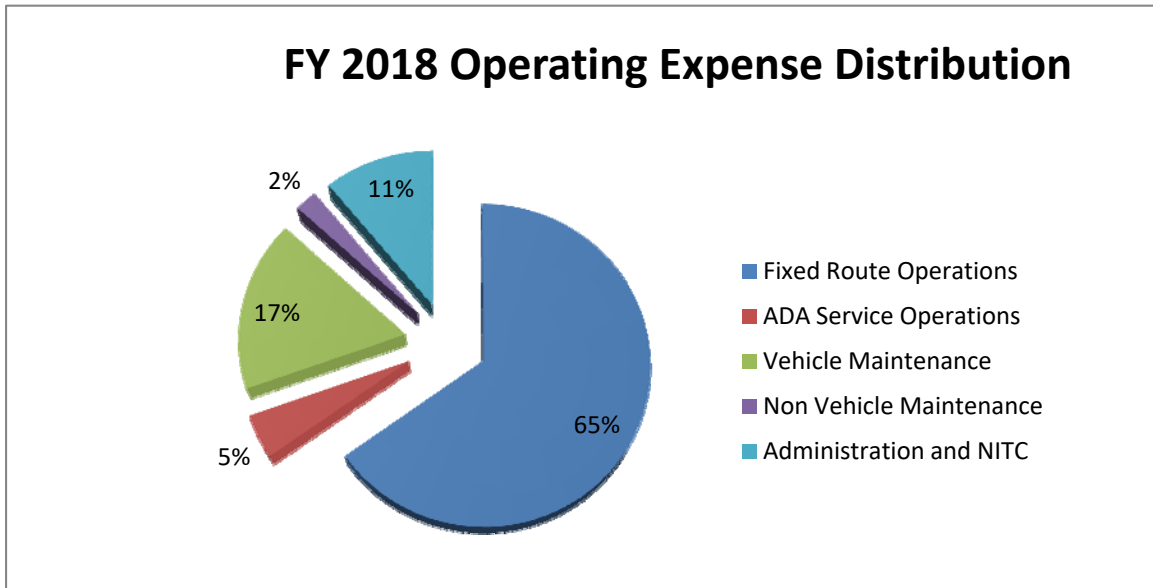
Revenue from Services provided was down 6.4% from FY 2017:

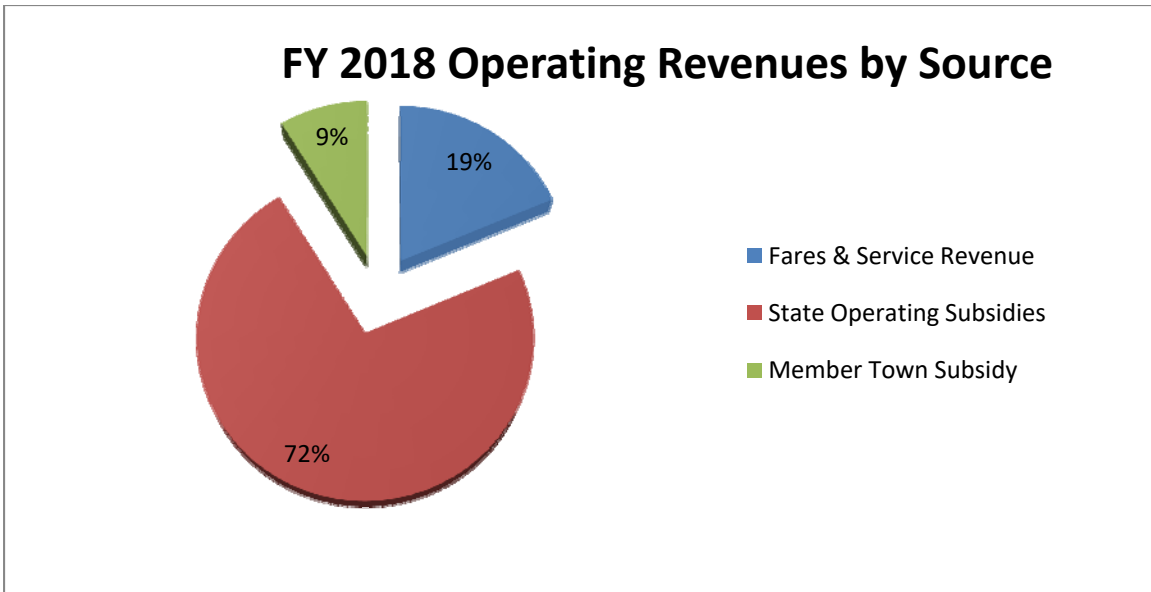
	2018	2017	Over/(Under)	% change
Fixed Route Farebox (GFI)	\$ 1,051,009.57	\$ 1,114,616.02	\$ (63,606.45)	-5.7%
Stop & Shop Ticket Sales	\$ 40,428.00	\$ 43,020.00	\$ (2,592.00)	-6.0%
Advertizing and other Revenue	\$ 29,618.38	\$ 31,515.44	\$ (1,897.06)	-6.0%
ECWIB Ticket Purchases	\$ 3,142.58	\$ 9,243.13	\$ (6,100.55)	-66.0%
ADA Farebox	\$ 22,454.48	\$ 20,299.72	\$ 2,154.76	10.6%
Total Farebox & Ticket Sales	\$ 1,146,653.01	\$ 1,218,694.31	\$ (72,041.30)	-5.9%
Offset Special Transit Revenues				
Three Rivers	\$ -	\$ 7,000.00	\$ (7,000.00)	-100.0%
Foxwoods	\$ -	\$ -	\$ -	
Total Special Transit	\$ -	\$ 7,000.00	\$ (7,000.00)	-100.0%
Net Revenue	\$ 1,146,653.01	\$ 1,225,694.31	\$ (79,041.30)	-6.4%

Ridership was down 5.1% from FY 2017 and 14.7% from FY 2016.

SEAT YOY Ridership Analysis						
	2018	2017	2016	2018 to 2017 % Change	2017 to 2016 % Change	
	Ridership	Ridership	Ridership			
Jul	78,585	89,477	98,157	-12.2%	-19.9%	
Aug	88,076	97,331	100,601	-9.5%	-12.5%	
Sep	81,640	86,053	95,118	-5.1%	-14.2%	
Oct	83,255	85,594	98,846	-2.7%	-15.8%	
Nov	79,025	83,529	87,516	-5.4%	-9.7%	
Dec	77,700	83,532	95,081	-7.0%	-18.3%	
Jan	70,924	79,950	84,871	-11.3%	-16.4%	
Feb	75,402	72,629	83,582	3.8%	-9.8%	
Mar	76,767	80,662	95,151	-4.8%	-19.3%	
Apr	77,947	79,090	91,104	-1.4%	-14.4%	
May	82,829	81,429	91,433	1.7%	-9.4%	
Jun	79,550	83,691	94,483	-4.9%	-15.8%	
Total Year	951,700	1,002,967	1,115,943	-5.1%	-14.7%	

Proprietary Fund Revenue Sources and Distribution: The below charts present a snapshot of the source and use of District operating funds in FY 2018. These charts include capital revenue and expense but do not include depreciation or in-kind expense.





Capital Asset and Debt Administration:

Capital assets: In FY 2018 and prior years, expenditures for items purchased under FTA grants under the administrative responsibility of Southeast Area Transit, and have a value of \$5,000 or greater, are, for accounting reasons, recorded under Fixed Asset accounts. SEAT regularly reports the status of those assets to the FTA. This includes any new items for which expenditures were made in FY 2018 under four pre-existing SEAT/FTA grants, two of which have now been closed out. The third SEAT/FTA grant (X469) remains active and has provided the funds for the now completed purchase of (5) ADA vans and (3) SUV replacements, with significant projects remaining including a new bus wash system and fueling systems upgrade. The fourth SEAT/FTA grant (CT-2017) also remains active and funded the replacement of (15) heavy duty buses now 12-14 years old. Eleven were replaced in FY 2018 and (4) will be replaced in FY 2019. Some of these purchases have been completed and are included in our fixed assets total and in our depreciation expense. A fifth grant (CT-2018) has been approved and was activated in August of FY 2019 and will cover the replacement of buses purchased in 2007 and 2008. These new buses are estimated to be delivered in FY2020 or FY2021.

Long-term debt: At the end of the current fiscal year, Southeast Area Transit District had no long-term bonded debt outstanding. The District regularly borrows on a short-term basis in anticipation of state operating grant revenues to supplement its cash flow during the year. On June 28, 2018, the District obtained the renewal of its existing Line of Credit to cover any short-term borrowing requirements. The current interest rate is 7.5% (latest increase 12/17/2018) and the debt balance was \$100,304 at the end of FY 2018.

Economic Factors and Next Year's Budget:

The unemployment rate for the New London Labor Market, obtained from the Connecticut Department of Labor as of June 30, 2018, was 4.3%, which is down from 4.6% in June of FY 2017. This compares similarly to the statewide unemployment rate of 4.4%. The inflationary trend in the region (+1.7% annual – BLS CPI Northeast region Table A for all items as of 12/31/2018) is slightly lower than the national inflation rate (1.9% - BLS CPI Urban areas - all items) for the last year. Note however, SEAT procurements are driven by national factors as much as regional.

For FY 2020, SEAT Operations will remain stable as the State DOT has suggested the operating subsidies will likely repeat the 2.5% increase given in FY 2019. There are some factors that may impact SEAT in FY 2020, including the recently committed diesel fuel price of \$2.471/gallon. Continued increase in diesel prices will affect SEAT's ability to maintain a surplus.

All these factors are being considered in outlining the Southeast Area Transit District's budget for the 2020 fiscal year. The details of this will be worked out during the balance of FY 2019.

Requests for Information: This financial report is designed to provide a general overview of the Southeast Area Transit District's finances for all those with an interest in the District's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Southeast Area Transit District, 21 Route 12, Preston, CT 06365.

SOUTHEAST AREA TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30,

	2018
ASSETS	
Current assets:	
Cash	\$ 450,911
Accounts receivable (net)	3,872
Due from other governments (net)	124,677
Unbilled - Due from other governments	2,274,377
Inventories	257,559
Prepaid expenses	122,028
Total current assets	3,233,424
Noncurrent assets:	
Capital assets:	
Construction in progress	5,200,940
Other capital assets (net)	2,102,720
Total capital assets	7,303,660
Total noncurrent assets	7,303,660
TOTAL ASSETS	10,537,084
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
Current liabilities:	
Accounts payable	2,611,691
Accrued payroll	59,394
Accrued liabilities	1,029
Line of credit	100,304
Accrued compensated absences	35,630
Total current liabilities	2,808,048
TOTAL LIABILITIES	2,808,048
DEFERRED INFLOWS OF RESOURCES	
Deferred revenue	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-
NET POSITION	
Net investment in capital assets	7,303,660
Restricted	-
Unrestricted	425,376
TOTAL NET POSITION	\$ 7,729,036

See accompanying independent auditors' report and management's notes to financial statements.

SOUTHEAST AREA TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30,

	2018
OPERATING REVENUES	
Passenger fares	\$ 1,117,034
State government contracts	4,566,702
Local government contracts	540,858
Federal government contracts	108,723
Advertising revenue	24,970
In-kind revenue	749,187
Miscellaneous revenue	4,349
Total operating revenues	7,111,823
OPERATING EXPENSES	
Payroll	2,639,417
Payroll taxes	255,744
Fringe benefits	1,540,756
Services	585,833
Materials and supplies	855,853
Utilities	114,697
Insurance	47,755
Interest	10,999
Rent	749,187
Capital maintenance	229,110
Depreciation	299,174
Other	78,354
Total operating expenses	7,406,879
OPERATING INCOME (LOSS)	(295,056)
NON-OPERATING REVENUES (EXPENSES)	
Gain on disposal of capital asset	-
Interest	299
Total non-operating revenues (expenses)	299
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(294,757)
CAPITAL CONTRIBUTIONS	5,474,999
CHANGE IN NET POSITION	5,180,242
TOTAL NET POSITION - BEGINNING	2,548,794
TOTAL NET POSITION - ENDING	\$ 7,729,036

See accompanying independent auditors' report and management's notes to financial statements.

STATEMENT C

SOUTHEAST AREA TRANSIT DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30,

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,901,770
Receipts from governments	3,284,046
Payments to suppliers	(383,292)
Payments to employees	(4,419,572)
Net cash provided (used) by operating activities	<u>382,952</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided (used) by noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	5,474,999
Purchase of capital assets	(5,474,999)
Insurance proceeds on destroyed capital assets	-
Payment of loan	-
Net cash provided (used) by capital and related financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	299
Net cash provided (used) by investing activities	<u>299</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	383,251
BALANCES - BEGINNING OF YEAR	<u>67,660</u>
BALANCES - END OF YEAR	<u>\$ 450,911</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (295,056)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories	
Depreciation expense	299,174
Changes in assets and liabilities:	
Accounts receivable (net)	6,230
Due from other governments (net)	342,140
Unbilled receivables	(2,274,377)
Inventories	(11,343)
Prepaid expenses	9,140
Accounts payable	2,400,699
Accrued payroll	11,984
Accrued liabilities	1,179
Line of credit	(110,000)
Accrued compensated absences	3,182
Net cash provided (used) by operating activities	<u>\$ 382,952</u>

See accompanying independent auditors' report and management's notes to financial statements.

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southeast Area Transit District (the District) was formed in January 1976, under Chapter 103A of the Connecticut General Statutes for the purpose of providing government sponsored bus service to the people who reside within the urbanized area of Southeastern Connecticut. Any town, city or borough may, by vote of its legislative body, join the District. As of June 30, 2018 nine (9) municipalities had joined the District.

Since 1993, the District has been providing services to the disabled, as required by The Americans with Disabilities Act (ADA). The District provides and coordinates ADA services throughout Southeastern Connecticut.

In accordance with governmental generally accepted accounting principles, the District is considered a quasi-governmental entity. Southeast Area Transit District maintains its books and records in accordance with Urban Mass Transportation Administration Uniform System of Accounts and Records and Reporting System.

The value of any services provided by State personnel on behalf of operations of the District and insurance premiums provided by the State on State owned buses has not been recognized in the accompanying financial statements.

Principles Determining Scope of Reporting Entity

The financial statements of the District consist only of the funds of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on, the District. Control or dependence is determined on the basis of budget adoption, taxing district, funding, and appointment of the respective governing board.

Fund Accounting

The District's operations are accounted for solely in one fund - the Enterprise Fund. This is the appropriate fund as the District had decided that the periodic determination of revenues earned, expenses incurred and increase (decrease) in net position is desired for the purpose of facilitating management control and accountability.

In-kind

In-kind revenues represent fair market value of facilities rent provided by the State of Connecticut at no cost. Rental value of buses and equipment provided by the State of Connecticut has not been valued and is excluded from in-kind revenues. This exclusion is not in accordance with generally accepted accounting principles.

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District's operations are primarily funded by passenger fares and subsidies from the State of Connecticut and the member Towns.

Capitalization of Assets

Capital assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date of donation. Capital assets over \$5,000 are capitalized.

Depreciation

Capital assets are depreciated over the assets useful lives using the straight-line method. The estimated useful lives are as follows:

Buses	12 years
Service vehicles	5 years
Equipment	5-12 years

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. The allowance for doubtful accounts is based upon an analysis of the credit history with its customers.

Inventories

Inventories of parts and fuel are stated at the lower of cost or market on a first-in, first-out basis (FIFO), and are accounted for under the consumption method.

Net Position

If expenses can be applied to either restricted or unrestricted balances, the government's policy is to apply them to restricted balances.

NOTE 2 - RISKS AND UNCERTAINTIES

Nature of Operations

The District is operated in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state agencies. Such administrative directives, rules, and regulations are subject to change by an act of Congress or the Legislature. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Current Vulnerabilities Due to Certain Concentrations

A large percentage of the District's funding revenues are from the Connecticut State Government. It is always considered to be reasonably possible that the State Government revenue could be lost or adjusted significantly in the near term.

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - RISKS AND UNCERTAINTIES (CONTINUED)

The total amount of the District's cash, stated at fair value, at June 30, 2018, is \$450,911. The total amount of District deposits in financial institutions, per the bank statements, were \$3,306,448 of which \$250,000 was covered by federal depository insurance. The remaining deposits were uninsured and uncollateralized. The district has no policy regarding credit risk.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Significant Estimates

None of the estimates contained in the financial statements are considered significant.

NOTE 3 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for certain risks of loss, including blanket umbrella policies. Settled claims have not exceeded commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from amounts held in the prior year.

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

As of June 30, 2018 the allowance for uncollectible accounts was estimated at \$0.

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in capital assets:

	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Capital assets (non-depreciable)				
Construction in progress	\$ 22,305	\$5,200,940	\$ (22,305)	\$5,200,940
Total capital assets (non-depreciable)	<u>22,305</u>	<u>5,200,940</u>	<u>(22,305)</u>	<u>5,200,940</u>
Other capital assets				
Buses	1,616,568	-	-	1,616,568
Equipment	1,141,815	205,043	-	1,346,858
Service vehicles	88,892	91,321	-	180,213
Total other capital assets at historical cost	<u>2,847,275</u>	<u>296,364</u>	<u>-</u>	<u>3,143,639</u>
Less accumulated depreciation for:				
Buses	(395,822)	(156,252)	-	(552,074)
Equipment	(312,951)	(108,402)	-	(421,353)
Service vehicles	(32,972)	(34,520)	-	(67,492)
Total accumulated depreciation	<u>(741,745)</u>	<u>(299,174)</u>	<u>-</u>	<u>(1,040,919)</u>
Other capital assets, net	<u>2,105,530</u>	<u>(2,810)</u>	<u>-</u>	<u>2,102,720</u>
Capital assets, net	<u>\$ 2,127,835</u>	<u>\$5,198,130</u>	<u>\$ (22,305)</u>	<u>\$7,303,660</u>

NOTE 6 – SHORT-TERM DEBT

An available \$1,000,000 revolving line of credit existed at year ending June 30, 2018. Interest was charged at a variable rate and the outstanding balance was \$100,304. The note is secured by a conditional assignment of revenue.

The following is a summary of changes in short-term debt:

	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Line of Credit	\$ 210,304	\$1,920,000	\$(2,030,000)	\$ 100,304
	<u>\$ 210,304</u>	<u>\$1,920,000</u>	<u>\$(2,030,000)</u>	<u>\$ 100,304</u>

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - DEFERRED COMPENSATION PLAN

There is a deferred compensation 457(b) plan administered in the District's name, but as it is administered by nongovernmental third parties and the plan administrators invest plan assets at the direction of the plan's participants, the plan is not reported in the financial statements of the District. The District does match an Employee's weekly contribution up to a maximum of \$35 depending on the date of hire and position. The total amount of pension expense incurred by the District was \$82,121 for year ending June 30, 2018.

NOTE 8 - COMMITMENTS AND LITIGATION

There are various unrecorded suits and claims pending against the District, none of which individually or in the aggregate is believed by legal counsel to be likely to result in a judgment or judgments which would materially affect the District's financial position.

The District has received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under terms of the grant. Based upon prior experience, the District management believes such disallowance, if any, will not be material.

NOTE 9 - MANAGEMENT REVIEW

Management has reviewed subsequent events as of January 30, 2019 , the date the financial statements were available to be issued. At that time there were no material subsequent events.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Southeast Area Transit District
Preston, Connecticut

We have audited the financial statements of Southeast Area Transit District as of and for the year ended June 30, 2018, and have issued our report thereon dated January 30, 2019, which contained a qualified opinion on those financial statements because in-kind revenues and expenses associated with donated bus and equipment leases from the State of Connecticut were not recorded. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

Schedules A through C are presented for the purposes of additional analysis and are not a required part of the financial statements. Schedules A through C are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, except for the effects on the supplementary information of the qualified opinion on the financial statements for the in-kind revenues and expenses not recorded, Schedules A through C are fairly stated, in all material respects, in relation to the financial statements as a whole.

Ron L. Beaulieu & Co.

Portland, Maine
January 30, 2019

SOUTHEAST AREA TRANSIT DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2018

	General Fund	ADA Fund	Total
ASSETS			
Current assets:			
Cash	\$ 450,911	\$ -	\$ 450,911
Accounts receivable (net)	3,872	-	3,872
Due from other governments (net)	124,677	-	124,677
Unbilled - Due from other governments	2,260,783	13,594	2,274,377
Inventories	257,559	-	257,559
Prepaid expenses	122,028	-	122,028
Total current assets	<u>3,219,830</u>	<u>13,594</u>	<u>3,233,424</u>
Noncurrent assets:			
Capital assets			
Construction in progress	5,200,940	-	5,200,940
Other capital assets (net)	2,102,720	-	2,102,720
Total capital assets	<u>7,303,660</u>	<u>-</u>	<u>7,303,660</u>
Total noncurrent assets	<u>7,303,660</u>	<u>-</u>	<u>7,303,660</u>
TOTAL ASSETS	<u>10,523,490</u>	<u>13,594</u>	<u>10,537,084</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,592,697	18,994	2,611,691
Accrued payroll	59,394	-	59,394
Accrued liabilities	1,029	-	1,029
Line of credit	100,304	-	100,304
Interfund loan	(392,205)	392,205	-
Accrued compensated absences	35,630	-	35,630
Total current liabilities	<u>2,396,849</u>	<u>411,199</u>	<u>2,808,048</u>
TOTAL LIABILITIES	<u>2,396,849</u>	<u>411,199</u>	<u>2,808,048</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Investment in capital assets	7,303,660	-	7,303,660
Restricted	-	-	-
Unrestricted	822,981	(397,605)	425,376
TOTAL NET POSITION	<u>\$ 8,126,641</u>	<u>\$ (397,605)</u>	<u>\$ 7,729,036</u>

See accompanying independent auditors' report on supplementary information.

SCHEDULE B

SOUTHEAST AREA TRANSIT DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2018

	General Fund	ADA Fund	Total
OPERATING REVENUES			
Passenger fares	\$ 1,094,580	\$ 22,454	\$ 1,117,034
State government contracts	4,403,574	163,128	4,566,702
Local government contracts	540,858	-	540,858
Federal government contracts	108,723	-	108,723
Advertising revenue	24,970	-	24,970
In-kind revenue	749,187	-	749,187
Miscellaneous revenue	4,349	-	4,349
Total operating revenues	<u>6,926,241</u>	<u>185,582</u>	<u>7,111,823</u>
OPERATING EXPENSES			
Payroll	2,632,245	7,172	2,639,417
Payroll taxes	255,103	641	255,744
Fringe benefits	1,537,496	3,260	1,540,756
Services	357,562	228,271	585,833
Materials and supplies	825,624	30,229	855,853
Utilities	114,697	-	114,697
Insurance	47,755	-	47,755
Interest	10,999	-	10,999
Rent	749,187	-	749,187
Capital maintenance	229,110	-	229,110
Depreciation	299,174	-	299,174
Other	78,354	-	78,354
Total operating expenses	<u>7,137,306</u>	<u>269,573</u>	<u>7,406,879</u>
OPERATING INCOME (LOSS)	<u>(211,065)</u>	<u>(83,991)</u>	<u>(295,056)</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain on disposal of capital asset	-	-	-
Interest	299	-	299
Total non-operating revenues (expenses)	<u>299</u>	<u>-</u>	<u>299</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(210,766)</u>	<u>(83,991)</u>	<u>(294,757)</u>
CAPITAL CONTRIBUTIONS	<u>5,474,999</u>	<u>-</u>	<u>5,474,999</u>
CHANGE IN NET POSITION	5,264,233	(83,991)	5,180,242
TOTAL NET POSITION - BEGINNING	<u>2,862,408</u>	<u>(313,614)</u>	<u>2,548,794</u>
TOTAL NET POSITION - ENDING	<u>\$ 8,126,641</u>	<u>\$ (397,605)</u>	<u>\$ 7,729,036</u>

See accompanying independent auditors' report on supplementary information.

SOUTHEAST AREA TRANSIT DISTRICT
 SCHEDULE OF REVENUES, FUNCTIONAL EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2018

REVENUES

Intergovernmental revenue	
State government contracts	\$ 4,403,574
Federal government contracts	108,723
Local government contracts	540,858
Total intergovernmental revenue	<u>5,053,155</u>
Transportation revenue	
Passenger fares	1,094,580
Special transit revenue	-
Total transportation revenue	<u>1,094,580</u>
Other revenue	
In-kind revenue	749,187
Advertising	24,970
Gain on disposal of capital asset	-
Miscellaneous	4,349
Total other revenue	<u>778,506</u>
Capital contributions	5,474,999
Total	<u>5,474,999</u>
Interest income	299
Total	<u>299</u>
Total revenues	<u>12,401,539</u>

EXPENSES

Vehicle operations	
Payroll	2,001,787
Payroll taxes	196,259
Fringe benefits	1,246,840
Purchased services	8,544
Materials and supplies consumed	538,170
Depreciation	299,174
Miscellaneous	2,574
Total vehicle operations	<u>4,293,348</u>
Vehicle maintenance	
Payroll	496,903
Payroll taxes	47,271
Fringe benefits	215,431
Purchased services	52,326
Materials and supplies consumed	243,949
Miscellaneous	213
Total vehicle maintenance	<u>1,056,093</u>

See accompanying independent auditors' report on supplementary information.

SCHEDULE C (CONTINUED)

SOUTHEAST AREA TRANSIT DISTRICT
 SCHEDULE OF REVENUES, FUNCTIONAL EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2018

Non-vehicle Maintenance	
Purchased services	\$ 44,351
Insurance	39,512
Materials and supplies consumed	13,767
Total non-vehicle maintenance	<u>97,630</u>
General administration	
Payroll	133,554
Payroll taxes	11,573
Fringe benefits	75,225
Purchased services	252,342
Materials and supplies consumed	29,739
Utilities	114,697
Casualty and liability insurance	8,243
Interest	10,999
Rent	749,187
Transfer to State	229,110
Miscellaneous	75,566
Total general administration	<u>1,690,235</u>
Total expenditures	<u>7,137,306</u>
Revenues over expenditures	5,264,233
TOTAL NET POSITION - BEGINNING	<u>2,862,408</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 8,126,641</u></u>

See accompanying independent auditors' report on supplementary information.

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INDEPENDENT AUDITORS' 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 Board of Directors of
Southeast Area Transit District
Preston, Connecticut

We have audited, 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 the financial statements of Southeast Area Transit District, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Area Transit District's financial statements are free from 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*.

Purpose of this Report

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

Ron L. Beaulieu & Co.

Portland, Maine
January 30, 2019

Southeast Area Transit District

State Single Audit Report

June 30, 2018

Ron L. Beaulieu & Company

CERTIFIED PUBLIC ACCOUNTANTS

SOUTHEAST AREA TRANSIT DISTRICT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY THE STATE SINGLE AUDIT ACT

To the Board of Directors of
Southeast Area Transit District
Preston, Connecticut

Report on Compliance for Each Major State Program

We have audited Southeast Area Transit District's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Southeast Area Transit District's major state programs for the year ended June 30, 2018. Southeast Area Transit District's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Southeast Area Transit District's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Southeast Area Transit District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Southeast Area Transit District's compliance.

Opinion on Each Major State Program

In our opinion, Southeast Area Transit District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Southeast Area Transit District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southeast Area Transit District's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Area Transit District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of Southeast Area Transit District, as of and for the year ended June 30, 2018 and have issued our report thereon dated January 30, 2019, which contained a qualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional

analysis as required by the State Single Audit Act and is not a required part of the financial statements. Such 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 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 schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Ron L. Beaulieu & Co.

Portland, Maine
January 30, 2019

SOUTHEAST AREA TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 YEAR ENDED JUNE 30, 2018

STATE GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	STATE GRANT PROGRAM CORE-CT NUMBER	EXPENDITURES
Department of Transportation		
Bus Operations	12001-DOT57000-12175	\$ 5,498,573
ADA	12001-DOT57000-12378	<u>163,128</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 5,661,701</u>

See accompanying independent auditors' report and management's notes to schedule of expenditures of state financial assistance.

SOUTHEAST AREA TRANSIT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2018

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Southeast Area Transit District under programs of the State of Connecticut for the fiscal year ended June 30, 2018. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including fixed route services, ADA specialized transit services, and capital asset purchases.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Southeast Area Transit District conform to accounting principles generally accepted in the United States of America as applicable to governments.

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

SOUTHEAST AREA TRANSIT DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' opinion issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ X _____ no
- Significant deficiency(ies) identified? _____ yes _____ X _____ none reported

Noncompliance material to financial statements noted? _____ yes _____ X _____ no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes _____ X _____ no
- Significant deficiency(ies) identified? _____ yes _____ X _____ none reported

Type of auditors' opinion issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? _____ yes _____ X _____ no

· The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation Bus Operations	12001-DOT57000-12175	\$ 5,498,573
· Dollar threshold used to distinguish between type A and type B programs		\$ 200,000

SOUTHEAST AREA TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

II. FINANCIAL STATEMENT FINDINGS

- We have issued reports, dated January 30, 2019 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*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated no significant deficiencies.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

- No findings or questioned costs are reported related to State Financial Assistance programs.

	<u>YES</u>	<u>NO</u>	<u>NA</u>
1. Did you inform the town, city or Borough clerk of that part of Section 7-394 of the General Statutes which provides that within one week after receiving the audit report he/she shall cause to be published a legal notice in a newspaper having a substantial circulation in the municipality that the report is on file in said clerk's office?	<u>X</u>	<u> </u>	<u> </u>
2. Did you obtain a letter from municipal counsel with respect to unpaid or pending judgments and as to any other legal proceeding affecting the municipality's finances?	<u> </u>	<u>X</u>	<u> </u>
3. Were financial statements and/or books and records of the entity made available within a reasonable time after the close of the fiscal year?	<u>X</u>	<u> </u>	<u> </u>
4. Was a separate management letter issued in addition to the Internal Control Report? If so, it should be submitted to the Office of Policy and Management with the audit report.	<u> </u>	<u>X</u>	<u> </u>
5. Were municipal officials (including the chief elected or executive official and governing body of the municipal entity) made aware of findings and recommendations resulting from the audit?	<u> </u>	<u> </u>	<u>X</u>
6. Federal Single Audit Act as Amended, 1996; Uniform Guidance for Federal Awards (Title 2 of CFR, 12/26/13)			
(a) Did you conduct a Single Audit of Federal Financial Assistance expended by the entity for FY 2017-18?	<u>X</u>	<u> </u>	<u> </u>
(b) Is a copy of the Single Audit included in the reporting package submitted?	<u> </u>	<u>X</u>	<u> </u>
7. State Single Audit (SSA) Act as amended by P.A. 09-7; Regulations to the SSA Act as amended by P.A. 09-7			
(a) Did you conduct a Single Audit of state financial assistance expended by the entity for FY 2017-18 or a program-specific audit of the entity's sole state program?	<u>X</u>	<u> </u>	<u> </u>
(b) Is a copy of the State Single Audit or program-specific audit included in the reporting package submitted?	<u>X</u>	<u> </u>	<u> </u>
(c) If applicable, did officials prepare a Corrective Action Plan (CAP) in sufficient time for inclusion in the audit report package [C.G.S. Sec.4-233(d)] to be filed with OPM as the cognizant state agency (hardcopy and electronic)?	<u> </u>	<u> </u>	<u>X</u>
(d) Did you upload the corrective action plan with the audit report package on OPM's Electronic Audit Reporting System?	<u> </u>	<u> </u>	<u>X</u>

The following question applies only to the one-hundred and sixty-nine (169) Connecticut municipalities, including the Borough of Naugatuck. It does not apply to other boroughs, regional school districts, other audited agencies or the City of Groton.

YES NO

8. Did the municipality complete its filings of the annual report in accordance with the Uniform System of Accounting for fiscal years ended 2014 through 2017 as provided under Section 7-406c(b) of the General Statutes?
