

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS**

Year Ended June 30, 2012

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

June 30, 2012

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## Independent Auditors' Report

To the Advisory Board of  
Southeastern Regional Transit Authority

We have audited the accompanying Statement of Net Assets of the Southeastern Regional Transit Authority (a political subdivision of the Commonwealth of Massachusetts) and the related Statement of Activities and Statement of Cash Flows as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express our 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. 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 also 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southeastern Regional Transit Authority as of June 30, 2012, and the respective changes in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 27 through 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.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards 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, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Hague, Sabady & Co. PC*

September 11, 2012

# SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis (Unaudited)

June 30, 2012

Our discussion and analysis of Southeastern Regional Transit Authority's financial performance provides an overview of the Authority's financial activities for the years ended June 30, 2012 and June 30, 2011. This management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Authority's financial condition. The summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary information that presents all the Authority's revenues and expenses.

Please read this report in conjunction with the Authority's basic financial statements, which begin on page 10.

### **FINANCIAL Highlights:**

- Total operating revenue decreased from \$13.4 million in fiscal year 2011 to \$13.3 million in fiscal year 2012.
- The operating expenses increased from \$14.7 million in fiscal year 2011 to \$14.9 million in fiscal year 2012.
- The net cost of service in excess of revenue as defined by the Commonwealth did not change a material amount remaining at \$6.4 million in fiscal year 2012. (See Note 1).

### *Using the Annual Report:*

This annual report consists of four parts - *management discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and *supplementary information*.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements consist of the statement of net assets, the statement of activities and the statement of cash flows. These statements include all assets and liabilities of Southeastern Regional Transit Authority. The statement of net assets presents the assets and liabilities, with the difference between the two reported as net assets. The statement of activities shows in broad terms how the net assets changed during the fiscal year. The statement of cash flows summarizes the movement of cash and the utilization of resources during the year.

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. There are three allowable categories of net assets as prescribed under GASB 34; net assets invested in capital assets, net of related debt; net assets that are restricted in use, and net assets that are unrestricted. The Authority has no restricted net assets but does report unrestricted net assets and net assets invested in capital assets, net of related debt.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2012

**CONDENSED FINANCIAL INFORMATION**

**Net Assets.** The Authority's net assets increased between fiscal years ended June 30, 2012 and June 30, 2011. The cost of service in excess of revenue is reimbursed by the Commonwealth of Massachusetts, a portion of which is assessed to the cities and towns served by the Authority and Federal operating assistance pursuant to the Transportation Equity Act for the 21<sup>st</sup> Century of 1998. See Table 1.

*Table 1*

	<u>2012</u>	<u>2011</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
<b>Assets:</b>				
Current assets	\$ 14,178,859	\$ 13,683,769	\$ 495,090	3.62%
Capital assets	18,257,652	15,550,278	2,707,374	17.41%
<b>Total assets</b>	<u>32,436,511</u>	<u>29,234,047</u>	<u>3,202,464</u>	<u>10.95%</u>
<b>Liabilities:</b>				
Current liabilities	10,119,318	10,004,857	114,461	1.14%
Long-term liabilities	1,010,887	822,913	187,974	22.84%
<b>Total liabilities</b>	<u>11,130,205</u>	<u>10,827,770</u>	<u>302,435</u>	<u>2.79%</u>
<b>Net assets:</b>				
Unrestricted	247,413	718,422	(471,009)	-65.56%
Restricted - stabilization fund	663,664		663,664	0.00%
Restricted - overdrawn NCS	1,642,468	1,642,468	-	0.00%
Restricted - FR terminal	495,109	495,109	-	0.00%
Investment in capital assets, net of related debt	18,257,652	15,550,278	2,707,374	17.41%
<b>Total net assets</b>	<u>\$ 21,306,306</u>	<u>\$ 18,406,277</u>	<u>\$ 2,900,029</u>	<u>15.76%</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2012

**Changes in Net Assets.** The Authority's total revenue decreased by 0.43% to \$13,362,134. The change was caused by a decrease in grant and service revenue combined with an increase in service revenue. Operating expenses also increased by \$115 thousand in the current year.

**Table 2**

	<u>2012</u>	<u>2011</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Operating revenue:				
Service revenue	\$ 2,140,169	\$ 1,976,707	\$ 163,462	8.27%
Grants	9,099,015	9,386,423	(287,408)	-3.06%
Local assessment	2,041,611	1,991,817	49,794	2.50%
Other income	81,339	65,024	16,315	25.09%
Total operating revenue	<u>13,362,134</u>	<u>13,419,971</u>	<u>(57,837)</u>	<u>-0.43%</u>
Operating expenses:				
Transportation services including maintenance	12,387,614	12,484,012	(96,398)	-0.77%
General and administrative	555,733	474,481	81,252	17.12%
Depreciation	1,941,310	1,811,622	129,688	7.16%
Total operating expenses	<u>14,884,657</u>	<u>14,770,115</u>	<u>114,542</u>	<u>0.78%</u>
Operating gain (loss)	<u>(1,522,523)</u>	<u>(1,350,144)</u>	<u>229,084</u>	<u>12.77%</u>
Nonoperating revenues/(expenses)	<u>(128,972)</u>	<u>(202,172)</u>	<u>73,200</u>	<u>-36.21%</u>
Net loss before capital grants	(1,651,495)	(1,552,316)	302,284	6.39%
Capital grants and contributions	<u>4,648,684</u>	<u>7,900,431</u>	<u>(3,251,747)</u>	<u>-41.16%</u>
Increase (decrease) in net assets	2,997,189	6,348,115	(3,350,926)	-52.79%
Net assets, beginning of year	<u>18,309,117</u>	<u>11,961,002</u>	<u>6,348,115</u>	<u>53.07%</u>
Net assets, end of year	<u>\$ 21,306,306</u>	<u>\$ 18,309,117</u>	<u>\$ 2,997,189</u>	<u>16.37%</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Management’s Discussion and Analysis (Unaudited) (Continued)

June 30, 2012

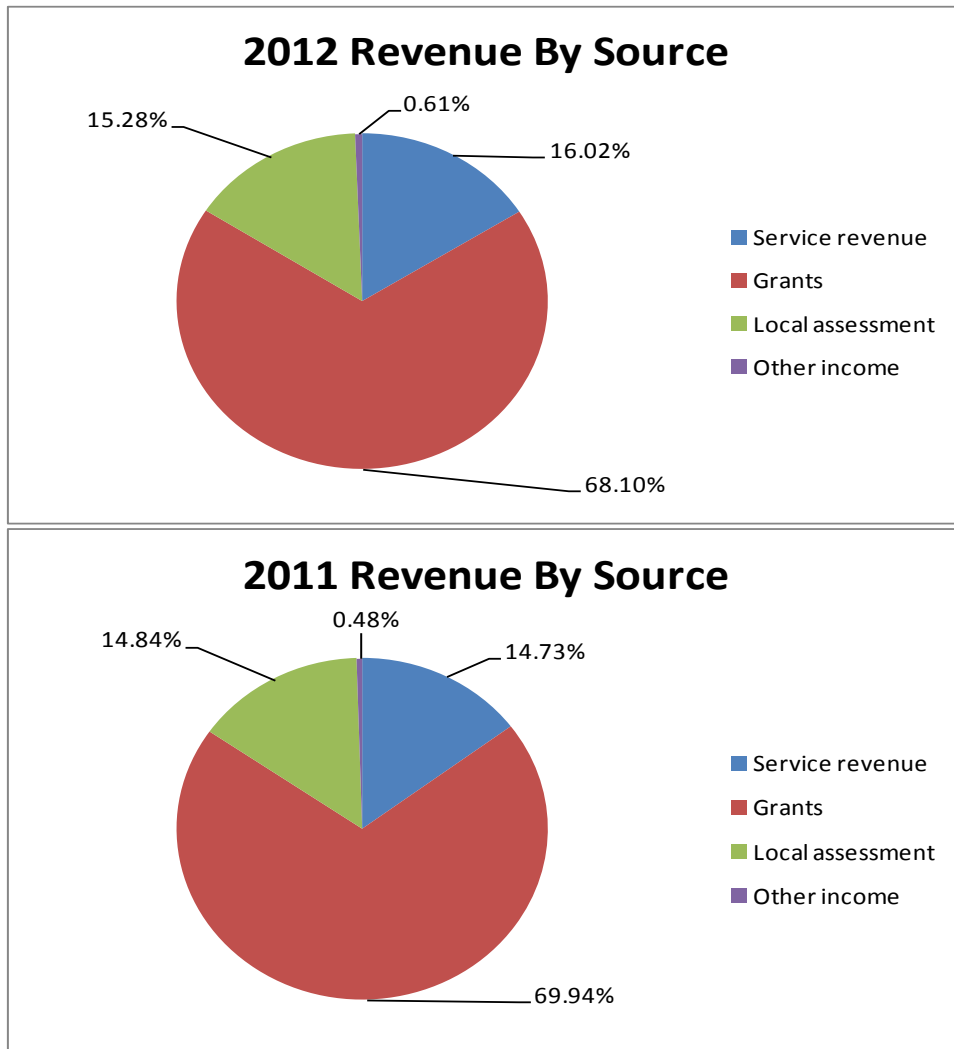
**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Approximately sixty-eight percent for 2012 and seventy percent for 2011 of the Authority support comes from federal and state operating assistance and the amortization of capital grants. The capital grants are to be used for various purposes connected with the planning, modernization and expansion of transportation and facilities. These grants are deferred until such time as the related facilities are put into service. Then the grants are amortized over the estimated useful life of the assets as a reduction of unreimbursed cost of service. The remaining revenues of service, local assessment and other revenue generates approximately 16.02%, 15.28% and 0.61% respectively for 2012 and 14.73%, 14.84% and 0.48% respectively for 2011. See Table 3.

The operation of bus service is contracted to Southcoast Transit Management, Inc. and a management fee is paid. Transportation service expenses are reimbursed to Southcoast Transit Management weekly upon receipt of an invoice detailing the 2012 weekly expenses. Approximately 83.22% of the operating cost relates to the cost of transportation services (i.e., salaries and fringe benefits) with 13.04% of the operating cost representing non-cash depreciation and amortization costs for 2012. See Table 4.

Approximately 84.52% of the operating cost relates to the cost of transportation services (i.e. salaries and fringe benefits) with 12.2% of the operating cost representing non-cash depreciation and amortization costs for 2011.

**Table 3**



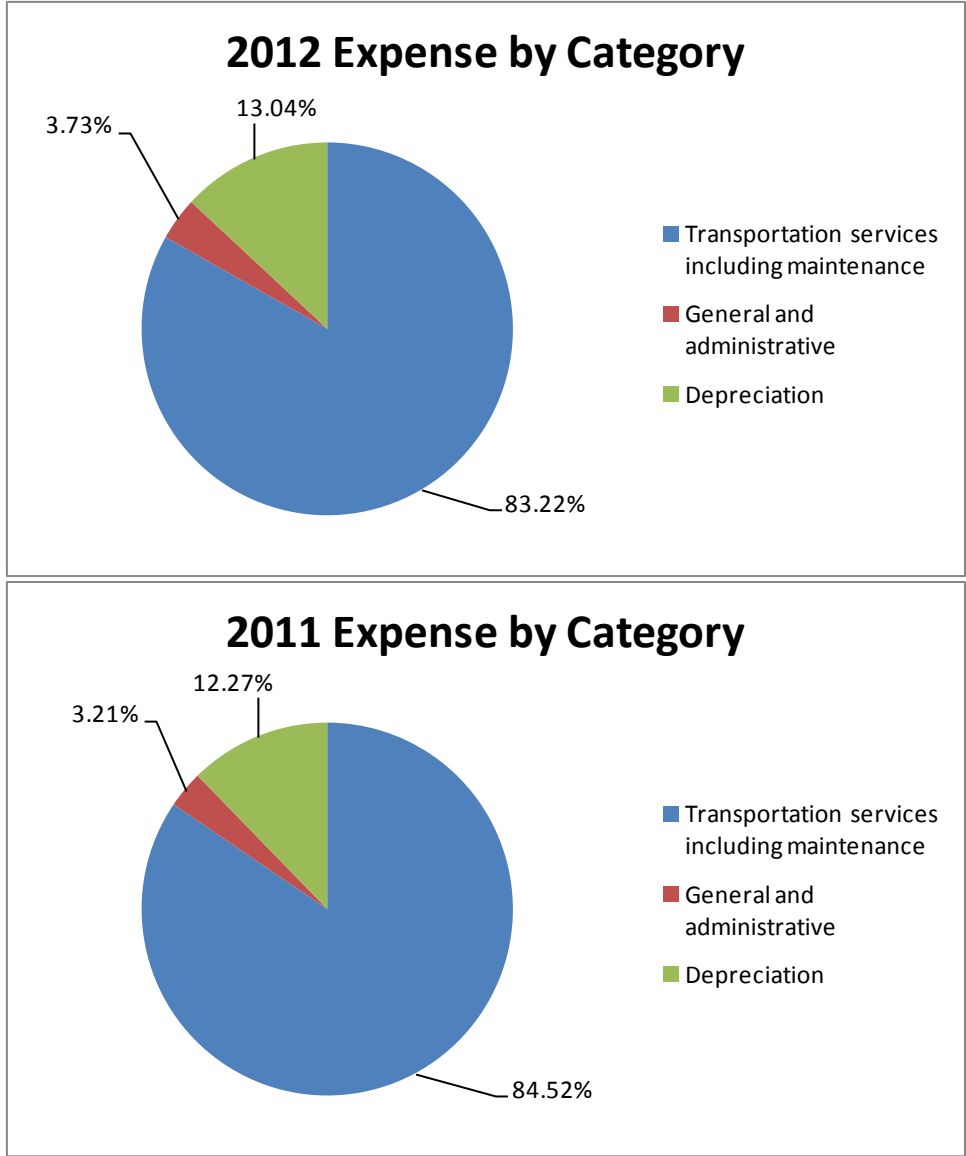


**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2012

**Table 4**



**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Management’s Discussion and Analysis (Unaudited) (Continued)

June 30, 2012

**DISCUSSION AND ANALYSIS OF BALANCES AND TRANSACTIONS**

The Authority finished the current year with an increase in net assets of \$2,997,189. The increase is a result of the difference between those assets capitalized in the current year as compared to the operating loss for the year.

The Authority’s capital improvement program provides for the replacement and expansion of the present bus fleet and other transportation equipment and the construction of the bus loading facilities, involving a total estimated cost of \$71,502,364 during the period from 1975 to 2012 of which \$57,938,829 has been approved grant spending through June 30, 2012. (See Note 2)

**DISCUSSION AND ANALYSIS OF SIGNIFICANT BUDGET VARIANCES**

The Authority did not revise its budget over the course of the year and the reported budget is both the original and final budget. There were significant unfavorable and favorable variances in the adopted budget for the fiscal year ended June 30, 2012. The unfavorable variances being in SRTA administration; and the favorable being in diesel fuel, fixed route and paratransit, and ITC operations. The cause of these variances was a result of the current economy and unpredictable increases and decreases in costs.

**DISCUSSION OF SIGNIFICANT CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY DURING THE YEAR**

At the end of fiscal year 2012, the Authority had invested \$39.5 million in property, plant and equipment. \$9.8 million had been invested in buildings and improvements with the remaining \$29.7 million in buses and equipment. This amount represents a 13.5% increase or \$4.7 million (including acquisitions and dispositions) over fiscal year 2011 when the Authority had \$34.8 million invested in property, plant and equipment of which \$9.6 million had been invested in buildings and improvements, with the remaining \$25.2 million in buses and equipment. More detailed information about the Authority’s capital assets is presented in the notes to the basic financial statements.

	<u>2012</u>	<u>2011</u>
Construction in progress	\$ 576,752	\$ 386,123
Building and improvements, net	4,059,325	4,276,292
Buses and equipment, net	12,318,249	9,824,937
Service equipment, net	531,669	465,461
Furniture and fixtures, net	304,486	174,172
Planning, net	467,171	423,293
Total	<u>\$ 18,257,652</u>	<u>\$ 15,550,278</u>

As of June 30, 2012 and 2011 the Authority had \$8.7 million in revenue bonds outstanding at the end of each fiscal year. The purpose of these bonds is to provide cash flow when the revenue from the FTA, Local Assessment. Under Chapter 161B of the Massachusetts General Laws, the Commonwealth is required to pay principal and interest that is due on any of the Authority bonds issued when the Authority does not have the funds available.

## **SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

### **Management's Discussion and Analysis (Unaudited) (Continued)**

June 30, 2012

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

With the passage of MAP-21 Federal Transit Authority Programs, SRTA expects similar allocations of funding as in previous years. While the actual apportionments have not been released, the overall funding levels are expected to be similar. One change to federal funding is that several discretionary programs have been consolidated to formula programs. While nationwide this may result in more stable funding levels the effects to overall funding in SRTA's region are expected to be minimal.

In FY13, the Massachusetts State legislature approved additional funding for regional transit authorities. In total SRTA should see a onetime increase of 3.5% in State Contract Assistance (SCA) to be used for allowable operating expenses such as paratransit operations, preventative maintenance and mobility management. The agency will also see an increase of 3.5% in its base of SCA to be used to fund retroactive operating expenses.

SRTA is also expecting in FY13 to begin operating limited evening service. The provision of this service will result in increases to operating costs.

SRTA is presently engaging the community in developing a revised fare structure. The current fare system structure has not been updated in many years and as a result is clumsy, hard to understand and places undue financial burdens on our ridership. The new, proposed fare structure is streamlined and while it will result in a lower average fare per passenger, SRTA believes that the reduced fare deficit will be partially off-set by increased ridership. In concert with the proposed fare restructuring, SRTA is installing a state of the art electronic fare collection system which will provide the agency with data and insight into our customers and their travel patterns.

#### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

The 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 Kristen A. Sniezek, Chief Financial Officer, Southeastern Regional Transit Authority, 700 Pleasant Street, First Floor, New Bedford, MA 02740-6263.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Net Assets

June 30, 2012

	<b>OPERATING</b>	<b>STABILIZATION</b>	<b>TOTAL</b>
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 5,283,272	\$ -	\$ 5,283,272
Receivables:			
State grants receivable	7,082,438		7,082,438
Federal grants receivable	110,391		110,391
Due from towns	9,552		9,552
Due from operating		663,664	663,664
Inventory	679,677		679,677
Prepaid expenses	321,809		321,809
Other assets	28,056		28,056
Total current assets	13,515,195	663,664	14,178,859
Non-Current Assets:			
Construction in progress	576,752		576,752
Building and improvements, net	4,059,325		4,059,325
Buses and equipment, net	12,318,249		12,318,249
Service equipment, net	531,669		531,669
Furniture and fixtures, net	304,486		304,486
Planning, net	467,171		467,171
Total non-current assets	18,257,652	-	18,257,652
Total assets	\$ 31,772,847	\$ 663,664	\$ 32,436,511
<b>Liabilities</b>			
Current liabilities:			
Revenue anticipation notes payable	\$ 8,705,075	\$ -	\$ 8,705,075
Accounts payable and other liabilities	528,978		528,978
Accrued salaries payable	130,962		130,962
Accrued interest payable	89,980		89,980
Due to stabilization	663,664		663,664
Deferred revenue	659		659
Total current liabilities	10,119,318	-	10,119,318
Non-Current Liabilities:			
Reserve for extraordinary expense	487,962		487,962
Compensated absences, net of current portion	522,925		522,925
Total non-current liabilities	1,010,887	-	1,010,887
Total liabilities	11,130,205	-	11,130,205
<b>Net Assets</b>			
Unrestricted, undesignated	\$ 247,413	\$ -	\$ 247,413
Restricted - stabilization fund		663,664	663,664
Restricted - overdrawn net cost of service	1,642,468		1,642,468
Restricted - Fall River terminal	495,109		495,109
Investment in capital grants, net of amortization	18,257,652		18,257,652
Total net assets	\$ 20,642,642	\$ 663,664	\$ 21,306,306

The notes to the basic financial statements are an integral part of this statement

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Activities

For the Year Ended June 30, 2012

	<u>OPERATING</u>	<u>STABILIZATION</u>	<u>TOTAL</u>
Operating revenues:			
Service revenue	\$ 2,140,169	\$ -	\$ 2,140,169
Grants:			
State operating assistance	4,383,507		4,383,507
Federal operating assistance	3,316,082		3,316,082
Federal - new freedom revenue	7,241		7,241
JARC	26,250		26,250
Federal - associated capital maintenance	1,365,935		1,365,935
Local assessment	2,041,611		2,041,611
Advertising income	43,044		43,044
Other income	38,295		38,295
Total operating revenues	<u>13,362,134</u>	<u>-</u>	<u>13,362,134</u>
Operating expenses:			
Cost of service:			
Salaries	5,935,159		5,935,159
Fringe	3,678,246		3,678,246
Depreciation	1,941,310		1,941,310
Materials and supplies	282,558		282,558
Diesel fuel	1,144,380		1,144,380
Management fees paid to Union Street Bus Company, Inc.	212,304		212,304
Miscellaneous	157,010		157,010
Insurance	595,637		595,637
Utilities	220,817		220,817
Office expense and services	161,503		161,503
Administrative:			
Salaries and fringe	267,523		267,523
Advertising	9,342		9,342
Professional fees	239,938		239,938
Office expense	38,930		38,930
Total operating expenses	<u>14,884,657</u>	<u>-</u>	<u>14,884,657</u>
Operating income (loss)	<u>(1,522,523)</u>	<u>-</u>	<u>(1,522,523)</u>
Nonoperating revenues (expenses):			
Interest income	9,713		9,713
Interest expense	(93,685)		(93,685)
Transfer to reserve fund	(45,000)		(45,000)
Transfer to stabilization	<u>(663,664)</u>	<u>663,664</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(792,636)</u>	<u>663,664</u>	<u>(128,972)</u>
Net loss before capital grants	(2,315,159)	663,664	(1,651,495)
Capital grants and contributions	<u>4,648,684</u>	<u>-</u>	<u>4,648,684</u>
Increase (decrease) in net assets	2,333,525	663,664	2,997,189
Net Assets, beginning of year, restated	<u>18,309,117</u>	<u>-</u>	<u>18,309,117</u>
Net Assets, end of year	<u>\$ 20,642,642</u>	<u>\$ 663,664</u>	<u>\$ 21,306,306</u>

The notes to the basic financial statements are an integral part of this statement

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Cash Flows

For the Year Ended June 30, 2012

Cash flows from operating activities:

Cash received from federal, state and local governments	\$ 15,231,111
Cash received from customers	2,126,176
Cash paid to supplies and employees	<u>(13,177,040)</u>
Net cash provided (used) by operating activities	<u>4,180,247</u>

Cash flows from noncapital financing activities:

Net proceeds from sale of revenue anticipation notes	8,730,450
Principal payments made on anticipation notes	(8,700,000)
Interest payments on anticipation notes	<u>(159,617)</u>
Net cash used in noncapital financing activities	<u>(129,167)</u>

Cash flows from capital and related financing activities:

Capital revenue from state and federal capital grants	4,648,684
Purchase of capital assets	<u>(4,648,684)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>

Cash flows from investing activities:

Interest income on invested funds	<u>9,713</u>
Net cash provided (used) in investing activities	<u>9,713</u>

Net increase (decrease) in cash 4,060,793

Cash and cash equivalents at beginning of year 1,222,479

Cash and cash equivalents at end of year \$ 5,283,272

Displayed at June 30, 2012 as:

Cash and cash equivalents: \$ 5,283,272

The notes to the basic financial statements are an integral part of this statement

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2012

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	<u>\$ (1,522,523)</u>
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,941,310
(Increase) decrease in accounts receivable	4,019,490
(Increase) decrease in inventory	(94,599)
(Increase) decrease in prepaid expenses	232,312
(Increase) decrease in other assets	(24,996)
Increase (decrease) in accounts payable and accrued expenses	(62,994)
Increase (decrease) in accrued salaries payable	32,461
Increase (decrease) in accrued pay/compensated absences	100,757
Increase (decrease) in deferred revenue	659
Increase (decrease) in due to other governments	<u>(441,630)</u>
	<u>5,702,770</u>
Net cash provided (used) by operating activities	<u><u>\$ 4,180,247</u></u>

The notes to the basic financial statements are an integral part of this statement

# SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

June 30, 2012

### 1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The financial statements of the Southeastern Regional Transit Authority (the Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

#### *Reporting Entity*

The Southeastern Regional Transit Authority (the Authority) was established on April 24, 1974 and commenced operations on July 1, 1974, pursuant to Chapter 1141 of the Acts of 1973 of the Commonwealth of Massachusetts (the Commonwealth), Massachusetts General Law 161B. Beginning in 1974, the Authority entered into an operating agreement with a contracted Carrier who would provide public transportation in the Authority’s service area at levels and on routes specified by the Authority.

Such agreements are put out to bid in three year intervals, the most recent agreement beginning on November 1, 2011. The Authority has the exclusive right and option to extend the agreement for two additional one year terms. The Authority has the right to terminate the agreement in writing, 90 days prior to the end of the term or with 90 days’ notice upon termination based on good cause, for lack of funding for the transit system or for convenience. The Authority provides the full financial support necessary to reimburse the Carrier for losses sustained in the operating of service, plus an annual management fee for each year of the contract.

The financial statements present information on activities of the Authority for which the Advisory Board has oversight responsibility. The criteria, as established by the Governmental Accounting Standards Board, for inclusion of activities in the oversight entity’s financial statements are: selection of governing authority, designation of management, ability to significantly influence operations, accountability over fiscal matters and scope of public service. Accordingly, the accompanying statements of revenue, expenses and changes in net assets include the revenues and expenses of the Carrier incurred in the operation of transportation services.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Boards* (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Commonwealth.

#### *Basis of Accounting*

##### **Government-Wide Financial Statements**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as a proprietary fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenue and expenses are reported as nonoperating revenue and expenses.



**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

*Basis of Accounting (Continued)*

**Government-Wide Financial Statements (Continued)**

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

*Budgeting*

Under Massachusetts General Law 161B, Section 8h, the Authority adopts an annual operating budget for the planning and administrative activities. The budgeting process enables the Authority to determine the annual contributions required from the member jurisdictions and the Commonwealth of Massachusetts to fund its planning and administrative activities.

*Unreimbursed Cost of Service*

Massachusetts General Law 161B§10 under which the Authority was established provides that the Commonwealth shall reimburse the Authority for the Net Cost of Service, as defined. The Net Cost of Service includes a charge equal to the payments made on long-term debt during the period, but does not include charges for depreciation and amortization or grants for operating assistance from the Federal Department of Transportation. The Net Cost of Service is that amount remaining of the net operating expense after the local assessment is taken. This balance is the contracted amount owed by the Commonwealth as State Contract Assistance.

The cost of service in excess of revenue presented in the accompanying Statements of Revenue, Expenses and Changes in Net Assets differs from the Net Cost of Service because the Authority follows generally accepted accounting principles for financial reporting purposes. The following table reconciles the Authority's cost of service in excess of revenue to its Net Cost of Service for the year ended June 30, 2012.

Balance at beginning of year	\$	-
Cost of service in excess of revenue		(13,029,781)
Expenses not reimbursable and other operating assistance:		
Depreciation and amortization in excess of principal payments on long-term debt		1,922,646
Local assistance		2,041,611
Federal operating assistance including associated capital maintenance		4,682,017
Net cost of service		(4,383,507)
Net cost of service reimbursed by the Commonwealth		4,383,507
Over reimbursement of cost of service	\$	-

For financial reporting purposes, the Authority follows the generally accepted accounting principle of depreciating the cost of property over its estimated useful life. The cumulative excess and principal payments on long-term debt are charged to the unreimbursed cost of service account and are recovered in years when the sum of grant amortization and principal payments made on long-term debt exceed depreciation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements (Continued)

June 30, 2012

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and amounts on deposit with banks, including certificates of deposit with maturities of 90 days or less.

Grants and Other Receivables

The Authority carries its accounts receivable at an amount equal to uncollected but earned revenue less write-offs. On a periodic basis, the Authority evaluates its' accounts receivable and utilizes the direct write-off method. Accounts receivable are considered delinquent if not in accordance with the contractual terms. Receivables are written off after collection efforts have failed.

As of June 30, 2012, the total accounts receivable written off was \$0.

Accrued Sick and Vacation

Authority employees are granted vacation and sick leave in varying amounts. At the end of employment, an employee may be reimbursed for accumulated vacation days and sick days if certain conditions are met. The Authority records accrued sick and vacation costs as an accrued expense.

Net Assets

The Authority reports net assets as reserved when legally segregated for a specific use. Otherwise, these balances are considered unrestricted.

There were no legal restrictions on net assets as of June 30, 2012. Therefore, all balances are considered unrestricted except for the net asset category entitled "Invested in capital assets, net of related debt" and the "Restricted-Fall River Terminal" category represents the amount designated for expenditure on the Fall River terminal. The "Invested in capital assets, net of related debt" and the net asset category entitled "Restricted-Fall River Terminal" category represents all investments in property and fixed assets less the debt associated with these assets. Additionally, amounts are restricted for the "stabilization fund" and the "overdrawn net cost of service" in fiscal year 2012.

Capital Assets

Capital assets are recorded at historical cost, while donated fixed assets are recorded at fair market value as of the date of the gift with an aggregated cost of \$1,000 or more and a useful life of more than one year.

Depreciation is charged to operating expense, based on the straight-line method, at rates that are designed to amortize the cost of the property over its estimated useful life. The estimated useful lives on the depreciable portion of the major categories of transportation property are as follows:

	<u>Estimated Useful Life</u>
Buildings and improvements	10 - 40 years
Buses and equipment (including service equipment)	3 - 12 years
Furniture and fixtures	6 - 10 years
Planning	10 years

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

1. ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

Grants

The Authority receives grants from certain governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation and facilities. These grants are deferred until such time as the related facilities are put into service. The grants are then amortized over the estimated useful lives of the assets as a reduction of the unreimbursed cost of service.

In addition, the Authority receives grants for operating assistance from the Federal Department of Transportation and the Commonwealth. Those funds are credited to the Net Cost of Service, as they are a reduction of the amounts that would otherwise be paid by the 10 cities and towns constituting the Authority. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Materials, Supplies and Inventory

The Authority uses the weighted average cost method for valuation purposes. The costs of inventory items are recorded as expenditures when used.

Income Taxes

The Authority is exempt from Federal and Commonwealth of Massachusetts income taxes since it is a public body established by statute.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$9,342 for the year ended June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes and disclosures. Actual results could differ from those estimates.

2. ***CAPITAL IMPROVEMENT PROGRAM AND RELATED GRANTS***

The Authority's capital improvement program provides for the replacement and expansion of the present bus fleet and other transportation equipment and the construction of bus loading facilities, involving a total estimated cost of \$71,502,364 during the period from 1975 to 2012. Financing requirements for the program are expected to be met as follows:

	<b>Federal</b>	<b>State, Local &amp; Other</b>	<b>Total</b>
Approved Grants	\$ 57,591,643	\$ 13,910,721	\$ 71,502,364
Approved grant spending through June 30, 2012	46,782,823	11,156,006	57,938,829
Amortization	(31,577,295)	(8,103,851)	(39,681,146)
Net grants balance	\$ 15,205,528	\$ 3,052,155	\$ 18,257,683

Receivables for grant expenditures from the federal and state governments were \$7,192,829 as of June 30, 2012. The expenditures were funded by transportation bonds and operating funds.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

3. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2012 is classified in the accompanying financial statements as follows:

Cash and cash equivalents \$ 5,283,272

Deposits are in various financial institutions and are carried at cost which approximates market value. The carrying amount of deposits is displayed in the Statement of Net Assets as "Cash". Petty cash is included in the presentation of cash on the Statement of Net Assets in the amount of \$15 on June 30, 2012.

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At year end the Authority's carrying amount of deposits was \$5,150,295, including \$15 of petty cash and the bank balance was \$5,886,336. Of the bank balance, \$785,550 was covered by Federal Depository Insurance, \$4,638,085 was covered by the Depository Insurance Fund, and the remaining balance of \$462,701 was uninsured.

The Authority has not formally adopted a deposit and investment policy that limits the Authority's allowable deposits and investments and addresses the specific types of risk to which the Authority is exposed.

4. **DUE FROM COMMONWEALTH OF MASSACHUSETTS**

The Authority receives various forms of assistance from the Commonwealth to support its operations. At June 30, 2012, the Authority was owed from the Commonwealth the 4<sup>th</sup> quarter local assessments and State contract assistance. The Commonwealth's department providing this support is the Executive Office of Transportation.

The following is the amount due to the Authority as of June 30, 2012.

<u>Date Received</u>	<u>Commonwealth Appropriation Account Number</u>	<u>Commonwealth Fund Name</u>	<u>Commonwealth Department Name</u>	<u>Appropriation Number</u>	<u>Fiscal Year of Appropriation</u>	<u>Amount</u>
7/2/2012					FY12 Local Assess	\$ 497,951
7/10/2012	RTACAP					10,913
7/27/2012	RTACAP					<u>67,756</u>
						<u>576,620</u>
Open A/R	RTACAP					80,698
Open A/R					FY13 Local Assess	2,041,611
Open A/R	SCA	6005-0015	010	2012	FY13 SCA	<u>4,383,509</u>
Subtotal of amount still outstanding at September 2012						<u>6,505,818</u>
Total amount due from the Commonwealth						7,082,438
Less: Current portion						<u>7,082,438</u>
Due from the Commonwealth - noncurrent						<u>\$ -</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

5. **CAPITAL ASSETS AND DEPRECIATION**

		<b>Beginning</b>			<b>June 30, 2012</b>	
		<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending</b>	
		<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>	
Not Being Depreciated:						
	Land	\$ -	\$ -	\$ -	\$ -	
	Construction in progress	386,123	190,629		576,752	
	Infrastructure in progress	-			-	
	Subtotal	<u>386,123</u>	<u>190,629</u>	<u>-</u>	<u>576,752</u>	
Other Capital Assets:						
	Building and improvements	9,600,746	144,985	-	9,745,731	
	Buses and equipment	21,829,971	3,667,056	-	25,497,027	
	Service equipment	1,639,414	357,975	-	1,997,389	
	Furniture and fixtures	572,863	171,984	-	744,847	
	Planning	794,322	116,055	-	910,377	
	Subtotal	<u>34,437,316</u>	<u>4,458,055</u>	<u>-</u>	<u>38,895,371</u>	
Accumulated Depreciation						
	Building and improvements	5,324,454	361,952		5,686,406	
	Buses and equipment	12,005,034	1,173,744		13,178,778	
	Service equipment	1,173,953	291,767		1,465,720	
	Furniture and fixtures	398,691	41,670		440,361	
	Planning	371,029	72,177		443,206	
	Subtotal	<u>19,273,161</u>	<u>1,941,310</u>	<u>-</u>	<u>21,214,471</u>	
expense was	Net other capital assets	<u>15,164,155</u>	<u>2,516,745</u>	<u>-</u>	<u>17,680,900</u>	Depreciation
for the fiscal	Net capital assets	<u>\$ 15,550,278</u>	<u>\$ 2,707,374</u>	<u>\$ -</u>	<u>\$ 18,257,652</u>	year ended
June 30,						2012.
			<b>2012</b>	<b>2011</b>		
	Construction in progress		\$ 576,752	\$ 386,123		
	Building and improvements		4,059,325	4,276,292		
	Buses and equipment		12,318,249	9,824,937		
	Service equipment		531,669	465,461		
	Furniture and fixtures		304,486	174,172		
	Planning		467,171	423,293		
			<u>\$ 18,257,652</u>	<u>\$ 15,550,278</u>		

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

**6. DEBT AND NOTES PAYABLE**

Under Chapter 161B of the Massachusetts General Laws, the Commonwealth is required to pay principal or interest that is due on any of the Authority's bond or note issues if the Authority does not have the funds available.

At June 30, 2012, the Authority had a revenue anticipation note of \$8,700,000 outstanding with interest rate of 1.25% due to mature on August 31, 2012. Of the balance on the note, a premium of \$7,075 remains. The original premium on the note when issued was \$30,450.

The revenue anticipation notes acquired during 2012 were for the purpose of funding operating expenses. Interest expense for 2012 on revenue anticipation notes was \$89,980.

	<u>Interest Rates</u>	<u>Issuance Dates</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Amortized Premium</u>	<u>Ending Balance</u>
RAN	1.25%	9/2/11	8/31/12	\$ -	\$ 8,730,450	\$ -	\$ (25,375)	\$ 8,705,075
RAN	1.75%	9/3/10	9/2/11	8,705,400		(8,705,400)		-
				<u>\$ 8,705,400</u>	<u>\$ 8,730,450</u>	<u>\$ (8,705,400)</u>	<u>\$ (25,375)</u>	<u>\$ 8,705,075</u>

**7. FEDERAL OPERATING ASSISTANCE**

The Authority is eligible for grants of operating assistance from the Federal Department of Transportation. Pursuant to Section 5307 of the Federal Transit Administration T21, as amended, the federal government will fund up to 50% of the Authority's Net Cost of Service, as defined. Federal operating assistance amounted to \$3,316,082 for the year ended June 30, 2012.

**8 STATE OPERATING ASSISTANCE**

The Authority has a contract with the Commonwealth of Massachusetts for operating assistance. This contract is managed by the Executive Office of Transportation. The contract provides that the Commonwealth will pay the Authority's Net Cost of Service. Present legislation provides that the 10 cities and towns constituting the Authority may be assessed an amount up to 50% of the Net Cost of Service, not to exceed 102½% of the prior year's assessment. Any new service provided by the Authority is not subject to the assessment limit. The amount not assessed to the cities and towns will be paid by the Commonwealth as operating assistance, which the Commonwealth has limited to 102½% of gross operating expenditures and 75% of Net Cost of Service. Under the contract, the Authority estimates the fiscal 2011 Net Cost of Service reimbursable by the Commonwealth to be \$6,425,118, of which \$2,041,611 (the legal limit) will be assessed to the 10 cities and towns constituting the Authority.

## SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements (Continued)

June 30, 2012

#### 9. ***SRTA EMPLOYEE PENSION PLAN***

The Authority contributes to the City of New Bedford's Contributory Employees' Retirement System, which is a single-employer public employee's retirement system (PERS), as established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts.

Effective January 1, 1996, the Contributory Employee's Retirement System of the City of New Bedford adopted Governmental Accounting Standards Board Statement No. 25 "GASB-25": "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". GASB-25 is intended to enhance the understandability and usefulness of pension information included in the financial reports of state and local government pension plans.

Effective July 1, 1998, Chapter 17 of the Acts of 1997 (COLA Legislation) was adopted. The result of the adoption of Chapter 17 is to increase the retirement allowance pension or annuity by the percentage as determined by the Commissioner of Social Security or 3%, whichever is less. The maximum pension benefit on which a COLA may be granted is \$12,000. All retirees, disabled retirees and beneficiaries that have been receiving benefit payments for at least one year as of July 1st are eligible for the adjustment.

All COLA's granted to members prior to July 1, 1998 and after 1981 are deemed to be an obligation of the State and not the liability of the Retirement System.

Employees of the Authority are covered under the Retirement System of the City of New Bedford, which is a contributory pension plan covering virtually all permanent City employees who meet certain minimum age and service criteria. Contributions made by the Authority to the plan for the year ended June 30, 2012 totaled \$35,322.

For further information on the retirement system, see the City of New Bedford's audited financial statements.

#### 10. ***DEFINED BENEFIT PENSION PLANS***

The Authority has agreed, under the terms of the operating agreement, to provide retirement benefits to the employees of the Carrier and to continue paying benefits to those retired employees who were eligible to collect benefits when the Authority assumed operating rights on July 1, 1974. In order to fulfill this obligation, the Authority instituted a funded pension plan (the Plan) on January 1, 1979. On July 1, 1988, the Authority amended the Plan by replacing it with two separate plans (collectively, the Plans) known as The Salaried Employees' Pension Plan of Southeastern Regional Transit Authority and Union Street Bus Company, Inc. (Salaried Plan) and The Hourly Employees' Pension Plan of Southeastern Regional Transit Authority and Union Street Bus Company, Inc. (Hourly Plan).

##### *Summary of Significant Accounting Policies*

###### **Basis of Accounting:**

The Authority's defined benefit pension plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

## SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

Notes to Financial Statements (Continued)

June 30, 2012

### 10. **DEFINED BENEFIT PENSION PLANS (CONTINUED)**

#### Summary of Significant Accounting Policies (Continued)

GASB No. 25 and GASB No. 27:

Effective for periods beginning after June 15, 1997, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements 25 and 27. These statements, which replace GASB Statement No. 5, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- current financial information about plan assets and financial activities,
- actuarially determined information from a long-term perspective,
- the funded status of the plan, and
- progress being made in accumulating sufficient assets to pay benefits when due.

#### Plan Descriptions

Employees of the contractor (Southcoast Transit Management, Inc.) are eligible to participate in the plan administered by the Southeastern Regional Transit Authority on the later of the employee's date of hire and the effective date provided that the employee customarily works at least twenty hours per week and five months per year. The Authority shall make periodic contributions in amounts actuarially determined to be sufficient to provide benefits under the plans. For the year ended June 30, 2012, the annual required contribution was \$1,106,453.

Effective September 1, 1992, under the provisions of the plan, retirement benefits vest after five years of continuous service. Continuous service consists of all employment while in the eligible employee classification (working at least twenty hours a week and five months a year). Continuous service is measured from date of employment and counted in full years, disregarding partial years. If an employee is terminated involuntarily, each former employee shall retain any vested interest to which he had become entitled. Employees can receive monthly retirement benefits in the form of a life annuity upon completion of at least five years of continuous service and after having reached age 65. Reduced benefits are available for early retirement and disability retirement. An employee's monthly retirement benefit is determined as follows. For the collective bargaining plan a monthly benefit equal to 1.4% (as of June 1, 2011) of a participant's monthly average compensation multiplied by his years of continuous service. A participant's accrued benefits may not be less than the accrued benefit determined as of January 7, 1990. The minimum monthly benefit payable at normal retirement date is equal to \$12.00 multiplied by years of continuous service as of January 7, 1990. For the salaried plan, a monthly benefit is equal to 2.15% (prior to July 1, 2008, 1.75%) of a participant's monthly average compensation multiplied by years of continuous service (not to exceed forty), including compensation and continuous service under the hourly plan for employees who have transferred from the hourly plan. Effective October 1, 2003, the Southeastern Regional Transit Authority, shall cease to accrue any additional benefits under this plan. In addition, any benefit accruals under this plan shall be offset by benefits provided by the New Bedford Contributory Pension Fund. The average applicable compensation of an employee is the average salary earned in the five consecutive calendar years in the last ten calendar years prior to date of determination that yield the highest average or, if higher average is produced, in the participant's last five years of employment. In the event the participant has not been employed for five years, his average compensation will be based upon his entire employment history. Salary includes regular wages, overtime, bonuses and commissions.

For the purpose of determining the average applicable compensation and accrued benefit of a participant as of any date after June 30, 1989, applicable compensation for any year, whether beginning before, on or after June 30, 1989, shall not exceed \$200,000. The \$200,000 amount shall be adjusted at the same time and in the same manner as provided in Section 415(d) of the Internal Revenue Code of 1986. However, the accrued benefit of a participant as of any date after June 30, 1989 shall not be less than the participant's accrued benefit determined as of June 30, 1989 under the terms of the Plans as then in effect.



**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

10. **DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Plan Description (Continued)

Membership of each plan consisted of the following at July 1, 2011 the date of the most recent actuarial valuation:

	<u>Salaried Plan</u>	<u>Collective Bargaining Plan</u>	<u>Total</u>
Active participants	30	92	122
Terminated participants with vested benefits	8	30	38
Retired participants and beneficiaries	<u>11</u>	<u>86</u>	<u>97</u>
Total	<u><u>49</u></u>	<u><u>208</u></u>	<u><u>257</u></u>

Annual pension costs and net benefit obligation

A summary of annual pension costs, contribution and net pension obligation without amortization of the unfunded (prepaid) actuarial liability is as follows:

	<u>2012</u>
Hourly Plan (Principal)	\$ 842,779
Salaried Plan (Kenneth D. Anderson)	<u>263,674</u>
Annual Required Contribution (ARC)	<u>\$ 1,106,453</u>
Interest on Net Pension Obligation	(17,187)
Adjustment to Annual Required Contribution	<u>12,277</u>
Annual Pension Costs	1,101,542
Contribution Made	<u>1,048,118</u>
Increase in Net Pension Obligation (NPO)	53,424
NPO beginning of the year	<u>(245,531)</u>
NPO end of the year	<u>\$ (192,107)</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

10. **DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Funding Policy

The most recent valuation of the Southeastern Regional Transit Authority Plan was prepared under the direction of The Kenneth D. Anderson Company, Inc. (for Salaried Plan), as of July 1, 2011 and Principal Financial Group (for Collective Bargaining), as of July 1, 2011. The standardized measure of the unfunded actuarial accrued liability as of July 1, 2011 is as follows:

	<b>Salaried Plan</b>	<b>Collective</b>	
	<b>July 1, 2011</b>	<b>Bargaining</b>	
	<b>July 1, 2011</b>	<b>July 1, 2011</b>	<b>Total</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Inactive participants	\$ 1,099,968	\$ 7,889,360	\$ 8,989,328
Active participants	<u>6,062,214</u>	<u>11,123,089</u>	<u>17,185,303</u>
Total actuarial accrued liability	7,162,182	19,012,449	26,174,631
Net assets available for benefits at market	(5,068,539)	(11,304,165)	(16,372,704)
Transfer of assets due to transferred participants	<u>2,093,643</u>	<u>7,708,284</u>	<u>9,801,927</u>
Normal cost payments	<u>(816,067)</u>	<u>(2,845,850)</u>	<u>(3,661,917)</u>
Unfunded actuarial accrued liability	<u>\$ 1,277,576</u>	<u>\$ 4,862,434</u>	<u>\$ 6,140,010</u>

11. **DEFERRED COMPENSATION PLAN**

Certain employees of the Authority are eligible to contribute to a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code. Under this plan, the Authority withholds the amount of compensation mutually agreed upon with each participant up to a prescribed limit outlined in the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights shall be held in one or more annuity contracts, issued by an insurance company qualified to do business in the state where the contract was issued, for the exclusive benefit of participants and beneficiaries under the plan. The Authority disclaims any and all rights with respect to entitlement to proceeds of any plan as set and deems them reserved solely for the benefit of participants under the terms of the plan.

12. **RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of property and injuries to employees. The Authority purchases commercial insurance from independent third parties to cover these risks. There have been no claims that have exceeded insurance coverage.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

13. **RELATED PARTY TRANSACTIONS**

The Authority paid management fees to Union Street Bus Company (former management company) who in turn contracts with the General Manager. The General Manager of Union Street Bus Company is also the owner of Trans-AG Management, Inc. The Contractor has agreed to comply with all current State and Federal Regulations and ensure that he and SRTA are in such compliance that the FTA certificate of assurances for the Federal fiscal years included in the Contract are able to be signed and certified. The Contract began on January 1, 2006 and was originally contracted to end December 31, 2010. However, the contract was extended until October 31, 2011. The following represents the amount paid as management fees for Trans-Ag Management, Inc. during fiscal year 2012:

July 1, 2011 through October 31, 2011 (payable at the rate of \$22,225.92 per month) (contract extended through October 31, 2011)	<u>\$ 88,904</u>
Amount paid to Trans-Ag Management	<u>\$ 88,904</u>

14. **LEGAL AND OTHER**

The Authority is involved in numerous lawsuits, claims and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

15. **COMMITMENTS**

On May 30, 2012 the Southeastern Regional Transit Authority signed an agreement with Goodyear Tire & Rubber Company through May 31, 2017. This agreement is to lease the Authority the number of tires sufficient to keep all of Southeastern Regional Transit Authority's vehicles fully equipped and to provide an adequate reserve supply.

The Authority agrees to furnish to Goodyear by the 15<sup>th</sup> day of each month a record of the daily revenue and non-revenue vehicle miles. The amount of monthly payments is computed by using the applicable billing rate per tire mile in effect during the preceding month.

16. **ECONOMIC DEPENDENCY**

The Authority received a substantial amount of its' support from federal and state governments. A significant reduction of this support, if this were to occur, may have an effect on operations.

17. **SUBSEQUENT EVENTS**

The following event occurred after the balance sheet date of June 30, 2012:

The authority rolled over revenue anticipation notes (RANs) on August 31, 2012 in the amount of \$8,700,000 at a 1.25% interest rate. The due date on the RAN is August 31, 2012. The purpose of the revenue anticipation note is to fund operation expenses.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2012

18. ***RESTATEMENT NOTE***

In the current fiscal year, it was necessary to restate beginning fund balance:

Net assets, beginning of year	\$ 18,357,697
Restatement to correct prior year local assessments	<u>(48,580)</u>
Net asset, beginning of year, restated	<u>\$ 18,309,117</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Statement of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2012

	<b>Budget As Adopted</b>	<b>Appropriations and Transfers</b>	<b>Total Available</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
Revenues:					
Cash Fares:					
Farebox revenue - fixed route	\$ 1,875,000	\$ -	\$ 1,875,000	\$ 2,041,126	\$ 166,126
Farebox revenue - paratransit	100,000		100,000	74,724	(25,276)
Agency Fares:					
Advertising	35,000		35,000	43,044	8,044
Interest	10,000		10,000	9,713	(287)
Auxiliary revenue	75,000		75,000	53,063	(21,937)
Grant revenue				33,491	33,491
<b>Total revenues</b>	<b>2,095,000</b>	<b>-</b>	<b>2,095,000</b>	<b>2,255,161</b>	<b>160,161</b>
Expenses:					
Operating/Cost of Service:					
Fixed Route and Paratransit:	10,595,000		10,595,000	10,163,271	431,729
Depreciation				18,664	(18,664)
Fuel	1,200,000		1,200,000	1,144,380	55,620
Insurance	550,000		550,000	317,380	232,620
SRTA administration	754,000		754,000	805,613	(51,613)
ITC operations	210,000		210,000	75,482	134,518
Interest expense and fees	150,000		150,000	128,842	21,158
<b>Total expenses</b>	<b>13,459,000</b>	<b>-</b>	<b>13,459,000</b>	<b>12,653,632</b>	<b>805,368</b>
Other financing sources (uses):					
Transfer to Stabilization				(663,664)	(663,664)
Transfer to Reserve Fund				(45,000)	(45,000)
Net Cost of Service	11,364,000	-	11,364,000	11,107,135	(256,865)
<b>Total other financing sources (uses):</b>	<b>11,364,000</b>	<b>-</b>	<b>11,364,000</b>	<b>10,398,471</b>	<b>(965,529)</b>
Excess (deficiency) of revenues and other financing sources over expenses and other financing uses					
	\$ -	\$ -	\$ -	\$ -	\$ -
Budgetary retained earnings at the beginning of year					
				1,642,468	
Budgetary retained earnings at the end of year					
				\$ 1,642,468	

See independent auditor's report and notes to required supplementary information

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Notes to Statement of Revenues and Expenses - Budgetary Basis

For the Year Ended June 30, 2012

The accompanying Statement of Revenues and Expenses - Budget and Actual presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis do not differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, perspective and entity differences in the excess (deficiency) of revenues over expenses for the year ended June 30, 2012 are as follows:

Increase (decrease) in net assets - GAAP basis	\$ 2,333,525
Increase (decrease) in inventory, net	94,599
Increase (decrease) in compensated absences	100,759
Increase (decrease) in prepaid insurances	232,312
Increase (decrease) in accrued interest	(35,157)
Capital grants and contributions	(4,648,684)
Depreciation and amortization	1,922,646
Increase (decrease) in net assets - Budget basis	<u><u>\$ -</u></u>

See independent auditor's report

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Schedule of Funding Progress

For the Year Ended June 30, 2012

(Unaudited)

<u>Actuarial Valuation Date</u>	<u>Reporting Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Frozen Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
07/01/00	2001	\$ 7,342,782	\$ 10,797,957	\$ 3,455,175	68.0%	\$ 3,978,745	86.8%
07/01/02	2003	\$ 9,235,865	\$ 12,034,021	\$ 2,798,156	76.7%	\$ 4,424,980	63.2%
07/01/04	2005	\$ 10,666,561	\$ 13,604,889	\$ 2,938,328	78.4%	\$ 3,424,315	85.8%
07/01/05	2006	\$ 11,558,990	\$ 15,185,142	\$ 3,626,152	76.1%	\$ 4,475,887	81.0%
07/01/06	2007	\$ 12,804,153	\$ 14,942,796	\$ 2,138,643	85.7%	\$ 4,031,802	53.0%
07/01/07	2008	\$ 14,076,737	\$ 17,564,484	\$ 3,487,747	80.4%	\$ 4,309,873	80.9%
07/01/08	2009	\$ 13,613,708	\$ 16,734,032	\$ 3,120,324	81.4%	\$ 4,629,515	67.4%
07/01/09	2010	\$ 13,443,265	\$ 18,485,803	\$ 5,042,538	72.7%	\$ 4,503,337	111.9%
07/01/10	2011	\$ 14,701,165	\$ 18,065,730	\$ 3,364,565	81.4%	\$ 5,513,000	61.0%
07/01/10	2012	\$ 16,372,704	\$ 20,290,025	\$ 3,917,321	80.7%	\$ 5,120,744	76.5%

Isolated analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provided one indication of the Plans' funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

See independent auditor's report

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Schedule of Employer Contributions

For the Year Ended June 30, 2012

(Unaudited)

<b>Year Ended June 30</b>	<b>Range of Annual Required Contributions</b>		<b>Actual Contributions</b>
1998	\$ 416,961	\$ 729,909	\$ 565,100
1999	473,397	966,034	1,017,591
2000	693,796	805,901	833,417
2001	685,723	797,828	776,391
2002	654,054	753,115	918,000
2003	664,976	758,154	841,549
2004	560,231	644,031	730,769
2005	569,608	653,409	718,560
2006	563,486	656,477	749,031
2007	642,119	746,554	1,419,970
2008	539,161	711,503	583,617
2009	871,558	1,041,260	920,047
2010	896,619	1,213,728	978,963
2011	956,461	1,385,273	1,041,378
2012	998,288	1,563,633	1,048,118

Method Used to Value Assets:

The Actuarial Cost Method for retirement benefits is the Frozen Entry Age Actuarial Cost Method. Under this method, the actuarial present value of projected benefits of the group included in the actuarial valuation minus the sum of the Actuarial Value of Assets and the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the future compensation of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The frozen actuarial accrued liability is determined using the entry age actuarial cost method. The portion of the actuarial present value allocated to a valuation year is called the normal cost. Under this method, the actuarial gains and losses reduce or increase future normal costs.

The Actuarial Value of Assets equals the Market Value of Assets as of the previous valuation date plus any due and accrued contributions.

Assumptions (Salaried Plan):

- Mortality table is the 2010 Applicable Mortality Table.
- Investment return on current assets and future contributions is assumed to be at a rate of 7.50% compounded annually for pre-retirement and 7.0% compounded annually for post-retirement.
- Salaries are assumed to compound by 4% annually.
- Retirement age is anticipated to be the later of normal retirement age, or attained age, if higher.

The most recent actuarial valuation of the plan was prepared as of July 1, 2011. The actuarial cost methods, actual assumptions and plan provisions are the same as those employed in the prior actuarial valuation (Salaried Plan).

See independent auditor's report



# SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

## Required Supplementary Information

### Schedule of Employer Contributions (Continued)

For the Year Ended June 30, 2012

(Unaudited)

#### Assumptions (Collective Bargaining):

- Mortality table is the 2011 Internal Revenue Service Prescribed Combined Table, Male and Female
- Investment return (net of investment expenses) is 7.0% for pre-retirement and 7.0% post-retirement
- Salaries are assumed to compound by 4.5% annually
- Retirement age is the normal retirement age as defined in the Summary of Plan Provisions

The most recent actuarial valuation of the Collective Bargaining plan is July 1, 2011. Assumptions from the previous valuation are as follows:

- The valuation interest rate was changed to reflect current expectations of the plan's long-term investment performance. Rate has decreased from 7.5% to 7.0%
- The salary scale was increased from 4.0% to 4.5% in order to reflect past experience and the expected level of future salary increase.
- The inflation rate was changed to more appropriately reflect current expectations. The rate was decreased from 3.0% to 2.25%.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

The amount of the total actuarial accrued liability is based on a standardized measurement. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. The standardized measurement of the actuarial accrued liability is intended to enable users of the financial statements to (a) assess the Plans' funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among employers.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Supplementary Information

Statement of Revenue and Cost of Service

For the Year Ended June 30, 2012

Transportation revenue	\$ 2,115,850
Operating expenses:	
Fixed route and paratransit	10,163,271
Depreciation	18,664
Amortization of grants	1,922,646
Fuel	1,144,380
Insurance	317,380
SRTA administration	805,613
ITC operations	75,482
	<hr/>
Total operating expenses	14,447,436
	<hr/>
Net operating loss	(12,331,586)
Other income	43,044
Interest income	9,713
Auxiliary income	53,063
Grant operating income	33,491
Transfer to stabilization	(663,664)
Transfer to reserve fund	(45,000)
Interest expense	(128,842)
	<hr/>
Cost of service in excess of revenue	\$ (13,029,781)

See independent auditor's report

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Supplementary Information

Statement of Unreimbursed Cost of Service

For the Year Ended June 30, 2012

Balance at beginning of year	<u>\$ -</u>
Cost of service in excess of revenue	<u>(13,029,781)</u>
Add:	
Net cost of service reimbursable by the Commonwealth of Massachusetts, a portion of which is to be assessed to the cities and towns served by the Authority	
Commonwealth of Massachusetts	6,425,118
Federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964	<u>4,682,017</u>
Total reimbursements	<u>11,107,135</u>
Amortization of grants	<u>1,922,646</u>
Balance at end of year	<u><u>\$ -</u></u>

See independent auditor's report