

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

(A Component Unit of the
Massachusetts Department of Transportation)

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2013

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the Southeastern Regional Transit Authority
New Bedford, Massachusetts

We have audited the accompanying financial statements of the governmental activities of the Southeastern Regional Transit Authority ("the Authority") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Southeastern Regional Transit Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison on pages 3 through 9 and 31 to 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Authority's basic financial statements. The statement of revenue and cost of service and the statement of unreimbursed cost of service is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The statement of revenue and cost of service and the statement of unreimbursed cost of service 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Authority's internal control over financial reporting and compliance.

Hague, Sabady & Co. PC

Fall River, Massachusetts
September 12, 2013

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Management's Discussion and Analysis (Unaudited)

June 30, 2013

The Authority's 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, 2013 and June 30, 2012. This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. 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 management discussion and analysis in conjunction with the Authority's basic financial statements, which begin on page 10.

FINANCIAL Highlights:

- Total operating revenue increased from \$2.2 million in fiscal year 2012 to \$2.5 million in fiscal year 2013.
- The operating expenses increased from \$14.9 million in fiscal year 2012 to \$16.5 million in fiscal year 2013.
- Operating assistance from the Commonwealth increased during fiscal year 2013 and federal operating assistance decreased during fiscal year 2013.

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*.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special purpose government engaged in only business type activities.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net position, the statement of activities and the statement of cash flows. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position of Southeastern Regional Transit Authority. The statement of net position presents the assets, deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. The statement of activities shows in broad terms how the net position changed during the fiscal year. The statement of cash flows summarizes the movement of cash and the utilization of resources during the year. The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating. There are three allowable categories of net position as prescribed under GASB 34; net position invested in capital assets, net of related debt; net position that is restricted in use, and net position that is unrestricted.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2013

CONDENSED FINANCIAL INFORMATION

Net Position. The Authority's net position increased between fiscal years ended June 30, 2013 and June 30, 2012. The cost of service in excess of revenue is reimbursed by Commonwealth of Massachusetts operating assistance, with a portion of net cost of service assessed to the cities and towns served by the Authority. The remainder is funded through federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964. See Table 1.

Table 1

	<u>2013</u>	<u>2012</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Assets:				
Current assets	\$14,970,108	\$14,178,859	\$ 791,249	6%
Capital assets	23,090,406	18,257,652	4,832,754	26%
Total assets	<u>38,060,514</u>	<u>32,436,511</u>	<u>5,624,003</u>	<u>17%</u>
Deferred outflows:				
None	-	-	-	0%
Total deferred outflows of resource	<u>-</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Liabilities:				
Current liabilities	11,247,428	10,118,659	1,128,769	11%
Long-term liabilities	539,897	522,925	16,972	3%
Total liabilities	<u>11,787,325</u>	<u>10,641,584</u>	<u>1,145,741</u>	<u>11%</u>
Deferred inflows:				
Unearned parking revenue	495	660	(165)	-25%
Total deferred inflows of resources	<u>495</u>	<u>660</u>	<u>(165)</u>	<u>-25%</u>
Net position:				
Unrestricted	139,871	247,413	(107,542)	-43%
Restricted	3,042,417	3,289,202	(246,785)	-8%
Investment in capital assets, net of related debt	<u>23,090,406</u>	<u>18,257,652</u>	<u>4,832,754</u>	<u>26%</u>
Total net position	<u>\$26,272,694</u>	<u>\$21,794,267</u>	<u>\$4,478,427</u>	<u>21%</u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2013

Changes in Net Position. The Authority's total operating revenue increased by 3% to \$2,198,299. The change was caused by a revised fare structure coupled with increased ridership. Operating expenses also increased by \$1.6 million in the current year due to a \$1.1 million increase in general and administrative expenses.

	<u>Table 2</u>		Total Dollar Change	Total Percentage Change
	<u>2013</u>	<u>2012</u>		
Operating revenue:				
Service revenue	\$ 2,198,299	\$ 2,140,169	\$ 58,130	3%
Other income	347,302	107,589	239,713	223%
Total operating revenue	<u>2,545,601</u>	<u>2,247,758</u>	<u>297,843</u>	<u>13%</u>
Operating expenses:				
Operator costs	11,089,313	11,030,930	58,383	1%
General and administrative	1,684,283	555,733	1,128,550	203%
Depreciation	2,293,927	1,941,310	352,617	18%
Other costs of service	1,455,108	1,356,684	98,424	7%
Total operating expenses	<u>16,522,631</u>	<u>14,884,657</u>	<u>1,637,974</u>	<u>11%</u>
Operating gain (loss)	<u>(13,977,030)</u>	<u>(12,636,899)</u>	<u>3,275,948</u>	<u>11%</u>
Nonoperating revenues/(expenses):				
Local assessment	2,092,654	2,041,611	51,043	3%
State assistance	5,248,432	4,383,507	864,925	20%
Federal assistance	4,419,777	4,689,258	(269,481)	-6%
Other nonoperating revenue/(expense) net:	(29,551)	(128,972)	99,421	-77%
Total nonoperating revenues/(expenses):	<u>11,731,312</u>	<u>10,985,404</u>	<u>(170,060)</u>	<u>-83%</u>
Net loss before capital grants	(2,245,718)	(1,651,495)	3,105,888	36%
Capital grants and contributions	6,724,145	4,648,684	2,075,461	45%
Increase (decrease) in net position	4,478,427	2,997,189	1,481,238	49%
Net position, beginning of year	<u>21,794,267</u>	<u>18,797,078</u>	<u>2,997,189</u>	<u>16%</u>
Net position, end of year	<u>\$ 26,272,694</u>	<u>\$ 21,794,267</u>	<u>\$ 4,478,427</u>	<u>21%</u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2013

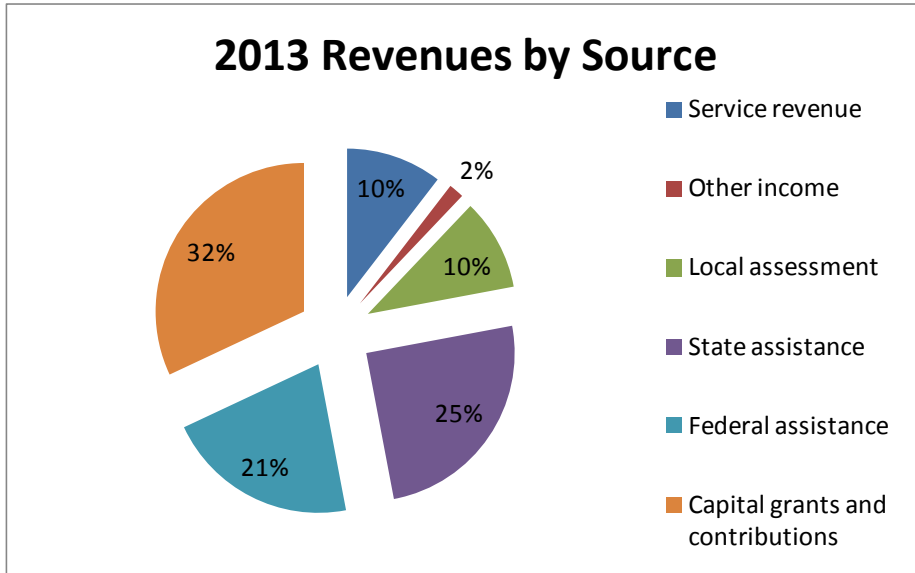
ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Approximately 88% for 2013 and 68% for 2012 of the Authority support comes from federal and state operating assistance and from federal and state capital grants and contributions. 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 and other revenue generate approximately 10% and 2% respectively for 2013 and 16.02% and 0.61% respectively for 2012. 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 2013 weekly expenses. Approximately 76% of the operating cost relates to the cost of transportation services (i.e., salaries and fringe benefits) with 14% of the operating cost representing non-cash depreciation and amortization costs for 2013 as well as 10% of the costs relating to general and administrative costs. See Table 4.

Approximately 83% of the operating cost relates to the cost of transportation services (i.e. salaries and fringe benefits) with 13% of the operating cost representing non-cash depreciation and amortization costs for 2012.

Table 3

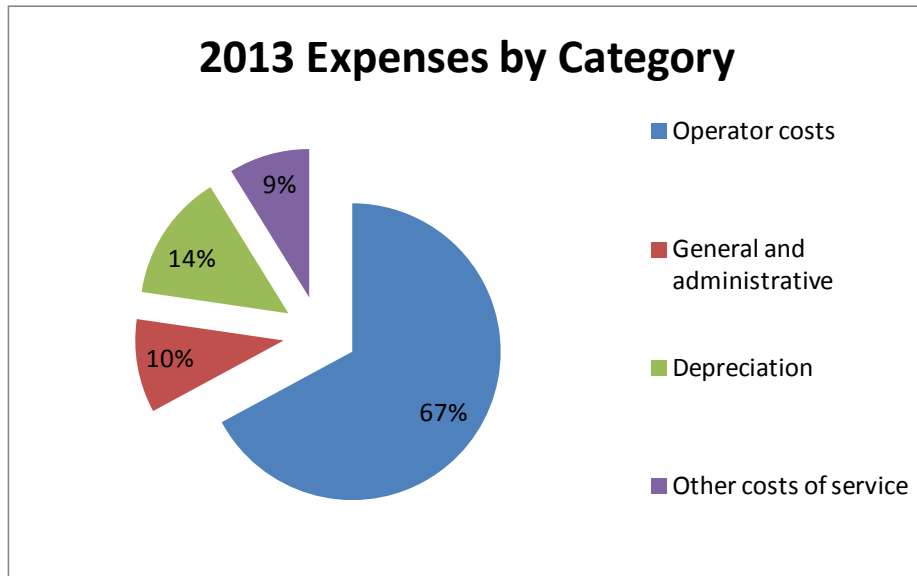


SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2013

Table 4



SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

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

June 30, 2013

DISCUSSION AND ANALYSIS OF BALANCES AND TRANSACTIONS

The Authority finished the current year with an increase in net position of \$4,478,427. 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 \$72,275,671 during the period from 1975 to 2013 of which \$64,662,943 has been approved grant spending through June 30, 2013. (See Note 2)

DISCUSSION AND ANALYSIS OF SIGNIFICANT BUDGET VARIANCES

The Authority made one revision to its budget over the course of the year and therefore, the reported final budget represents amended amounts. There were no significant unfavorable variances in the amended budget for the fiscal year ended June 30, 2013. The favorable variances being in fixed route fare box revenues (\$103,163 higher) and auxiliary revenues (\$157,296 higher).

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

At the end of fiscal year 2013, the Authority had invested \$40.5 million in property, plant and equipment. \$9.8 million had been invested in buildings and improvements; \$5.3 million invested in non-depreciable assets (land and the Fall River terminal project) with the remaining \$25.4 million in buses and equipment. This amount represents a 26.5% increase or \$4.8 million (including acquisitions, dispositions and depreciation) over fiscal year 2012 when the Authority had \$39.5 million invested in property, plant and equipment of which \$9.8 million had been invested in buildings and improvements, with the remaining \$29.7 million in buses and equipment. More detailed information about the Authority's capital assets is presented in the notes to the basic financial statements.

	2013	2012	Change in Balances
Land	\$ 326,611	\$ 326,611	\$ -
Construction in progress	5,051,005	576,752	4,474,253
Building and improvements, net	3,746,997	3,732,714	14,283
Buses and equipment, net	12,767,010	12,318,249	448,761
Service equipment, net	370,345	531,669	(161,324)
Furniture and fixtures, net	329,884	304,486	25,398
Planning, net	498,554	467,171	31,383
Total	\$ 23,090,406	\$ 18,257,652	\$4,832,754

As of June 30, 2013 the Authority had \$8.7 million in revenue bonds outstanding at the end of the fiscal year. The purpose of these bonds is to provide cash flow when the revenue from the FTA, Local Assessment and State Contract Assistance is received at a later date. 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
(A Component Unit of the Massachusetts Department of Transportation)

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

June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Under 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.

The Massachusetts legislature approved forward funding of the regional transit authorities with the passage of its FY14 budget. Previous to this action, RTAs were the only line item in the state budget that were retro-actively reimbursed - meaning that the agency would complete the fiscal year prior to knowing how much assistance the state would provide. The new forward funding will allow each RTA to retire its state attributable portion of its Revenue Anticipation Note, as it becomes due for renewal. SRTA led the way in this process, retiring its FY13 state attributable deficit and moving forward as an annually funded agency.

The FY14 funding provided by the legislature was divided between the RTAs based on a formula which considered size and operating environment of the agency, ridership and previous state funding levels. Based on this input, SRTA saw an increase in its FY14 State Contract Assistance (SCA) of \$265,146 or 5.7% bringing its total SCA to \$4,907,660.

While a portion of this funding will be used to off-set inflationary expenses, the remaining funds will be used to support SRTA's nights and weekends service expansion.

SRTA also anticipates that the Department of Revenue will be making a change to the process for local assessment disbursements. The authority will see the local assessment payments go from quarterly to either monthly or bi-monthly.

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
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position

June 30, 2013

	OPERATING	STABILIZATION	TOTAL
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,423,079	\$ -	\$ 1,423,079
Receivables:			
State grants receivable	5,597,842		5,597,842
Local assessment receivable	2,603,064		2,603,064
Federal grants receivable	1,913,546		1,913,546
Other receivables	25,476		25,476
Due from operating account	-	798,262	798,262
Inventory	685,466		685,466
Prepaid expenses	134,481		134,481
Prepaid pension asset	1,788,892		1,788,892
Total current assets	14,171,846	798,262	14,970,108
Non-Current Assets:			
Land	326,611		326,611
Construction in progress	5,051,005		5,051,005
Building and improvements, net	3,746,997		3,746,997
Buses and equipment, net	12,767,010		12,767,010
Service equipment, net	370,345		370,345
Furniture and fixtures, net	329,884		329,884
Planning, net	498,554		498,554
Total non-current assets	23,090,406	-	23,090,406
Total assets	\$ 37,262,252	\$ 798,262	\$ 38,060,514
Deferred outflows of resources			
None	-		-
Total deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	\$ 37,262,252	\$ 798,262	\$ 38,060,514

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position (Continued)

June 30, 2013

	OPERATING	STABILIZATION	TOTAL
Liabilities			
Current liabilities:			
Revenue anticipation notes payable	\$ 8,709,077	\$ -	\$ 8,709,077
Accounts payable and other liabilities	1,292,488		1,292,488
Due to operator	158,991		158,991
Accrued salaries payable	198,233		198,233
Accrued interest payable	90,377		90,377
Due to stabilization	798,262		798,262
Total current liabilities	11,247,428	-	11,247,428
Non-Current Liabilities:			
Compensated absences, net of current portion	539,897		539,897
Total non-current liabilities	539,897	-	539,897
Total liabilities	11,787,325	-	11,787,325
Deferred inflows of resources			
Unearned parking revenue	495		495
Total deferred inflows of resources	495	-	495
Net Position			
Unrestricted	\$ 139,871	\$ -	\$ 139,871
Restricted:			
Stabilization fund (MGL Ch.161B s.26)	-	798,262	798,262
Fall River terminal project	56,900		56,900
Extraordinary repairs reserve (MGL Ch.161B s.6(q))	398,363		398,363
Pension benefits	1,788,892		1,788,892
Investment in capital assets:			
Net of accumulated depreciation	438,209		438,209
Net of accumulated amortization	22,652,197		22,652,197
Total net position	\$25,474,432	\$ 798,262	\$26,272,694

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2013

	<u>OPERATING</u>	<u>STABILIZATION</u>	<u>TOTAL</u>
Operating revenues:			
Service revenue	\$ 2,198,299	\$ -	\$ 2,198,299
Advertising income	47,839		47,839
5311 expanded service revenue	46,876		46,876
Other income	<u>252,587</u>		<u>252,587</u>
Total operating revenues	<u>2,545,601</u>	<u>-</u>	<u>2,545,601</u>
Operating expenses:			
Cost of service			
Salaries	6,743,051		6,743,051
Fringe	3,314,203		3,314,203
Materials and supplies	534,828		534,828
Miscellaneous	97,963		97,963
Utilities	181,492		181,492
Office expense and services	<u>217,776</u>		<u>217,776</u>
Subtotal - Cost of service	<u>11,089,313</u>	<u>-</u>	<u>11,089,313</u>
Additional costs of service:			
Depreciation	2,293,927		2,293,927
Diesel fuel and gasoline	1,250,903		1,250,903
Management fees paid to operator	185,100		185,100
5311 expanded service expenses	<u>19,105</u>		<u>19,105</u>
Subtotal - additional costs of service:	<u>3,749,035</u>	<u>-</u>	<u>3,749,035</u>
Total operating expenses:	<u>14,838,348</u>	<u>-</u>	<u>14,838,348</u>
Administrative expenses:			
Salaries and fringe	574,589		574,589
Advertising	19,775		19,775
Professional fees	241,119		241,119
Office expense	52,466		52,466
Other administrative expense	109,234		109,234
Insurance expense	<u>687,100</u>		<u>687,100</u>
Total administrative expenses:	<u>1,684,283</u>	<u>-</u>	<u>1,684,283</u>
Operating income (loss):	<u>(13,977,030)</u>	<u>-</u>	<u>(13,977,030)</u>

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position (Continued)

For the Year Ended June 30, 2013

	<u>OPERATING</u>	<u>STABILIZATION</u>	<u>TOTAL</u>
Nonoperating revenues (expenses):			
Local assessment	2,092,654		2,092,654
State operating assistance	5,248,432		5,248,432
Federal operating assistance	2,535,451		2,535,451
Federal - preventative maintenance	1,884,326		1,884,326
JARC	46,222		46,222
Other revenue (expense)	23		23
Disposition of capital assets	(35,666)		(35,666)
Interest income	20,012		20,012
Interest expense	(108,982)		(108,982)
Amortization of premium	48,840		48,840
Total nonoperating revenues (expenses)	<u>11,731,312</u>	<u>-</u>	<u>11,731,312</u>
Net loss before capital grants	<u>(2,245,718)</u>	<u>-</u>	<u>(2,245,718)</u>
Capital Grants:			
Federal	4,785,292		4,785,292
Commonwealth of Massachusetts	1,938,853		1,938,853
Total capital grants	<u>6,724,145</u>	<u>-</u>	<u>6,724,145</u>
Increase (decrease) in net position	4,478,427	-	4,478,427
Net position, beginning of year	<u>20,996,005</u>	<u>798,262</u>	<u>21,794,267</u>
Net position, end of year	<u>\$ 25,474,432</u>	<u>\$ 798,262</u>	<u>\$ 26,272,694</u>

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows

For the Year Ended June 30, 2013

Cash flows from operating activities:

Cash received from federal, state and local governments	\$ (4,494)
Cash received from passenger fares	2,198,134
Cash received from rentals, parking and other	300,426
Cash paid to operators, other vendors and employees	<u>(14,829,313)</u>
Net cash provided (used) by operating activities	<u>(12,335,247)</u>

Cash flows from noncapital financing activities:

Operating and contract assistance	7,105,196
Net proceeds from sale of revenue anticipation notes	8,754,462
Principal payments made on anticipation notes	(8,700,000)
Interest payments on anticipation notes	<u>(110,205)</u>
Net cash used in noncapital financing activities	<u>7,049,453</u>

Cash flows from capital and related financing activities:

Capital revenue from state and federal capital grants	7,605,273
Asset dispositions	(35,643)
Purchase of capital assets from reserve funds	(438,209)
Purchase of capital assets	<u>(5,725,832)</u>
Net cash provided (used) by capital and related financing activities	<u>1,405,589</u>

Cash flows from investing activities:

Interest income on invested funds	<u>20,012</u>
Net cash provided (used) in investing activities	<u>20,012</u>

Net increase (decrease) in cash (3,860,193)

Cash and cash equivalents at beginning of year 5,283,272

Cash and cash equivalents at end of year \$ 1,423,079

Displayed at June 30, 2013 as:

Cash and cash equivalents: \$ 1,423,079

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2013

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

Operating income (loss)	<u>\$ (13,977,030)</u>
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	2,293,927
(Increase) decrease in accounts receivable	(79,426)
(Increase) decrease in inventory	(5,789)
(Increase) decrease in prepaid expenses	187,328
(Increase) decrease in pension asset	(1,788,892)
(Increase) decrease in other assets	28,056
Increase (decrease) in accounts payable and accrued expenses	763,510
Increase (decrease) in accrued salaries payable	67,271
Increase (decrease) in accrued pay/compensated absences	16,972
Increase (decrease) in deferred revenue	(165)
Increase (decrease) in due to operator	<u>158,991</u>
Subtotal	<u>1,641,783</u>
Net cash provided (used) by operating activities	<u>\$ (12,335,247)</u>

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2013

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 to provide public transportation for the territory comprised of the cities of New Bedford and Fall River and the Towns of Acushnet, Dartmouth, Fairhaven, Freetown, Mattapoisett, Somerset, Swansea and Westport. Beginning in 1974, the Authority entered into an operating agreement with a contracted operator 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 operator 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 position include the revenues and expenses of the operator 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’s Department of Transportation.

Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on the accrual basis in order to recognize the form of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operations of the Authority are included in the Statement of Net Position. 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
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

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

Basis of Accounting (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. The budget is prepared on the accrual basis. Depreciation and amortization are not recognized as an expense as these are not budgeted each year. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

Unreimbursed Cost of Service

Massachusetts General Law 161B Section 10, the Chapter 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 Position 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, 2013.

Balance at beginning of year	\$ -
Cost of service in excess of revenue	(14,101,666)
Expenses not reimbursable and other operating assistance:	
Depreciation and amortization in excess of principal payments on long-term debt	2,293,927
Local assistance	2,092,654
Federal operating assistance including associated capital maintenance and expanded services	4,466,653
Net cost of service	(5,248,432)
Net cost of service reimbursed by the Commonwealth	5,248,432
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
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

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, 2013, the total accounts receivable written off was \$16,704.

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 Position

The Authority reports net position as restricted when legally segregated for a specific use or for other special purposes. Otherwise, these balances are considered unrestricted.

Legal restrictions on net position as of June 30, 2013 consisted of the Authority's stabilization fund and its extraordinary repairs reserve. Additional amounts of restricted net position consist of amounts restricted to assist in the Fall River Terminal construction project as well as the amount of net pension the Authority is carrying on its balance sheet. The "investment in capital assets" section of net position represent resources related to the capital assets of the Authority.

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

When property and equipment are disposed, depreciation is removed from the respective accounts, and the resulting gain or loss, if any, is recorded in operations. In fiscal year 2013, this loss amounts to \$35,666 as seen on the Statement of Revenues, Expenses and Changes in Net Position.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

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 Department of Transportation. 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 \$19,775 for the year ended June 30, 2013.

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.

Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of investments, cash equivalents and grant receivables. The Authority's cash equivalents were with various credit-worthy financial institutions, investments consisted of grant receivables due from Federal, state and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

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 \$72,275,677 during the period from 1975 to 2013. Financing requirements for the program are expected to be met as follows:

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

2. ***CAPITAL IMPROVEMENT PROGRAM AND RELATED GRANTS (CONTINUED)***

	Federal	State, Local & Other	Total
Approved Grants	\$ 57,591,643	\$ 14,684,034	\$ 72,275,677
Approved grant spending through June 30, 2013	51,568,115	13,094,828	64,662,943
Amortization	(33,406,719)	(8,604,027)	(42,010,746)
Net grants balance	\$ 18,161,936	\$ 4,490,801	\$ 22,652,197

Receivables for grant expenditures from the federal and state governments were \$7,511,388 as of June 30, 2013. The expenditures were funded by transportation bonds and operating funds.

3. ***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents as of June 30, 2013 is classified in the accompanying financial statements as follows:

Cash and cash equivalents	<u>\$ 1,423,079</u>
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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 Position as "Cash". Petty cash is included in the presentation of cash on the Statement of Net Position in the amount of \$2,867 on June 30, 2013.

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 \$1,423,079, including \$2,867 of petty cash and the bank balance was \$2,706,151. Of the bank balance, \$843,772 was covered by Federal Depository Insurance, \$720,919 was covered by the Depository Insurance Fund, and the remaining balance of \$1,141,460 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 for operating assistance as provided in enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. At June 30, 2013, the Authority was owed from the Commonwealth the 4th quarter local assessment from fiscal year 2013, and State contract assistance as well as state capital grant funding. The Commonwealth's department providing this support is the Executive Office of Transportation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

4. ***DUE FROM COMMONWEALTH OF MASSACHUSETTS (CONTINUED)***

The following is the amount due to the Authority as of June 30, 2013:

Date Received	Commonwealth Appropriation Account Number	Commonwealth Department Name	Appropriation Number	Fiscal Year of Appropriation	Amount
7/2/2013		Treasurer	FY13 4th Qtr	FY13 Local Assess Fiscal Year 2010	\$ 510,399
7/30/2013	RTACAP	DOT		(Reimb)	9,553
8/16/2013	SCA	DOT	2013	FY13 SCA (Reimb)	4,642,514
Various	RTACAP	DOT		FY13 Capital	881,128
Subtotal of amount received before September 2013					<u>6,043,594</u>
Open A/R		Treasurer	FY14 All Qtrs	FY14 Local Assess	2,092,665
Open A/R	SCA	DOT		FY13 RAN and Other	64,647
Subtotal of amount still outstanding at September 2013					<u>2,157,312</u>
Total amount due from the Commonwealth (June 30, 2013)					<u><u>\$ 8,200,906</u></u>

5. **LOCAL ASSESSMENTS**

The Authority's net cost of service is also funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. (MGL Chapter 59 Section 20A).

Below is a comparison of local assessments to member communities under the provisions of MGL Chapter 161B Section 9 for the current and prior fiscal year as well as the upcoming fiscal year.

Member Communities	2012	2013	Percent Change	2013 Member Allocation
New Bedford	800,255	820,261	2.5%	40.2%
Fall River	924,137	947,240	2.5%	46.4%
Acushnet	27,545	28,234	2.5%	1.4%
Dartmouth	84,093	86,195	2.5%	4.2%
Fairhaven	29,841	30,587	2.5%	1.5%
Freetown	-	-	0.0%	0.0%
Mattapoisett	8,784	9,004	2.5%	0.4%
Somerset	51,379	52,663	2.5%	2.6%
Swansea	46,613	47,778	2.5%	2.3%
Westport	19,170	19,649	2.5%	1.0%
Subtotals:	<u>1,991,817</u>	<u>2,041,611</u>	<u>2.5%</u>	<u>100.0%</u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

5. **LOCAL ASSESSMENTS (CONTINUED)**

Upcoming fiscal year (fiscal year 2014):

Member Communities	2013	2014	Percent Change	2014 Member Allocation
New Bedford	820,261	840,774	2.5%	40.2%
Fall River	947,240	970,927	2.5%	46.4%
Acushnet	28,234	28,940	2.5%	1.4%
Dartmouth	86,195	88,350	2.5%	4.2%
Fairhaven	30,587	31,352	2.5%	1.5%
Freetown	-	1	100.0%	<0.04%
Mattapoisett	9,004	9,229	2.5%	0.4%
Somerset	52,663	53,980	2.5%	2.6%
Swansea	47,778	48,972	2.5%	2.3%
Westport	19,649	20,140	2.5%	1.0%
Subtotals:	<u>2,041,611</u>	<u>2,092,665</u>	<u>2.5%</u>	<u>100.0%</u>

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

6. **CAPITAL ASSETS AND DEPRECIATION**

	July 1, 2012 Beginning Balance	Restatement	Beginning Balance Restated	Increases	Decreases	June 30, 2013 Ending Balance
Not Being Depreciated:						
Land	\$ -	\$ 326,611	\$ 326,611	\$ -	\$ -	\$ 326,611
Construction in progress	576,752		576,752	4,474,253		5,051,005
Subtotal	576,752	326,611	903,363	4,474,253	-	5,377,616
Other Capital Assets:						
Building and improvements	9,745,731	(326,611)	9,419,120	393,417		9,812,537
Buses and equipment	25,497,027	10	25,497,037	2,013,813	5,102,015	22,408,835
Service equipment	1,997,389		1,997,389	53,372	724,429	1,326,332
Furniture and fixtures	744,847		744,847	117,017	313,259	548,605
Planning	910,377		910,377	110,449		1,020,826
Subtotal	38,895,371	(326,601)	38,568,770	2,688,068	6,139,703	35,117,135
Accumulated Depreciation						
Building and improvements	5,686,406		5,686,406	379,134		6,065,540
Buses and equipment	13,178,778	10	13,178,788	1,565,052	5,102,015	9,641,825
Service equipment	1,465,720		1,465,720	197,989	707,722	955,987
Furniture and fixtures	440,361		440,361	72,686	294,326	218,721
Planning	443,206		443,206	79,066		522,272
Subtotal	21,214,471	10	21,214,481	2,293,927	6,104,063	17,404,345
Net other capital assets	17,680,900	(326,611)	17,354,289	394,141	35,640	17,712,790
Net capital assets	\$ 18,257,652	\$ -	\$ 18,257,652	\$ 4,868,394	\$ 35,640	\$ 23,090,406

Depreciation expense was \$2,293,927 for the fiscal year ended June 30, 2013.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

7. DEBT AND NOTES PAYABLE

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

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, 2013, the Authority had a revenue anticipation note of \$8,700,000 outstanding with interest rate of 1.25% due to mature on August 30, 2013. Of the balance on the note, a premium of \$9,077 remains. The original premium on the note when issued was \$54,462.

The revenue anticipation notes acquired during 2013 were for the purpose of funding operating expenses. Interest expense for 2013 on revenue anticipation notes was \$109,982.

Note Type:	Interest Rates	Issuance Dates	Maturity Date	Beginning Balance	Acquisitions	Premium	Dispositions	Amortized Premium	Ending Balance	Interest Paid
RAN	1.25%	9/2/11	8/31/12	\$ 8,705,075	\$ -	\$ -	\$ (8,700,000)	\$ (5,075)	\$ -	\$ 18,664
RAN	1.25%	8/31/12	8/30/13	-	8,700,000	54,462		(45,385)	8,709,077	91,318
				<u>\$ 8,705,075</u>	<u>\$ 8,700,000</u>	<u>\$ 54,462</u>	<u>\$ (8,700,000)</u>	<u>\$ (50,460)</u>	<u>\$ 8,709,077</u>	<u>\$ 109,982</u>

8. FEDERAL 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 \$4,419,777 for the year ended June 30, 2013.

The United States Department of Transportation approves capital grants to fund up to 80% of the Authority’s capital improvement projects. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition, the Federal government may fund up to 80% of the Authority’s preventive maintenance and ADA services costs.

9. STATE ASSISTANCE

The Authority has a contract with the Commonwealth of Massachusetts for operating assistance (MGL Chapter 161B Section 23). 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 fiscal 2013 Net Cost of Service reimbursable by the Commonwealth was \$7,341,086, of which \$2,092,654 (the legal limit) was assessed to the 10 cities and towns constituting the Authority. (See Note 5 “Local Assessments”)

The Commonwealth also finances approximately 20% of the Authority’s capital management through the Commonwealth’s Executive Office of Transportation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

10. ***NET ASSETS - RESTRICTED FOR OTHER PURPOSES***

In accordance with Massachusetts General Laws Chapter 161 Section 6(q), the Authority has established a reserve for extraordinary expenses. Prior approval from state officials is required before any expenditures can be made. At June 30, 2013, that reserve amounted to \$398,363. The Authority added \$45,000 to this reserve in the current fiscal year from its net position. This reserve is at its maximum allowable balance under the law at fiscal year end June 30, 2013.

11. ***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, 2013 totaled \$35,322.

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

12. ***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 South Coast Transit Management (Salaried Plan) and The Hourly Employees' Pension Plan of Southeastern Regional Transit Authority and South Coast Transit Management (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
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements (Continued)

June 30, 2013

12. ***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, 2013, the annual required contribution was \$940,181 (to the Union (hourly) Plan) and \$182,681 to the Salaried Plan.

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
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Notes to Financial Statements (Continued)

June 30, 2013

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

Plan Description (Continued)

Membership of each plan consisted of the following at July 1, 2012 the date of the most recent actuarial valuation:

	Salaried Plan	Collective Bargaining Plan	Total
Active participants	25	110	135
Terminated participants with vested benefits	9	32	41
Retired participants and beneficiaries	13	84	97
Total	47	226	273

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:

	Fiscal Year Ended June 30, 2013
Net Pension Asset (Liability) Beginning of Year	\$ 192,107
Hourly Plan (Principal)	940,181
Salaried Plan (Anderson)	182,681
Annual Required Contribution	1,122,862
Contribution made from overdrawn net cost of service reserve	1,642,468
Contributions made during fiscal year	1,077,179
Increase (decrease) in Net Pension Asset	1,596,785
Net Position Asset (Liability) End of Year	\$ 1,788,892

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, 2012 and Principal Financial Group (for Collective Bargaining), as of July 1, 2012. The standardized measure of the unfunded actuarial accrued liability as of July 1, 2012 is as follows:

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Notes to Financial Statements (Continued)

June 30, 2013

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

	Salaried Plan July 1, 2012 (unaudited)	Collective Bargaining July 1, 2012 (unaudited)	Total (unaudited)
Inactive participants	\$ 1,727,861	\$ 8,133,165	\$ 9,861,026
Active participants	<u>5,088,646</u>	<u>12,214,148</u>	<u>17,302,794</u>
Total actuarial accrued liability	6,816,507	20,347,313	27,163,820
Net assets available for benefits at market	(5,347,916)	(11,749,656)	(17,097,572)
Unfunded actuarial accrued liability	<u>\$ 1,468,591</u>	<u>\$ 8,597,657</u>	<u>\$ 10,066,248</u>

13. **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.

14. **RISK MANAGEMENT**

In conjunction with its normal operations, 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.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amounts can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported as non material at June 30, 2013.

15. **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.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements (Continued)

June 30, 2013

16. ***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 15th 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.

17. ***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.

18. ***TRANSIT SERVICE***

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property are performed by First Transit under the terms of an agreement whereby First Transit operates mass transit along such routes and according to such a schedule as defined by the Authority. First Transit uses South Coast Transit Management, Inc. (SCTM), a wholly owned subsidiary, for the performance of the actual fixed route and ADA paratransit operations. In return, the Authority agrees to pay First Transit a management fee and to reimburse SCTM for all costs and expenses which are reasonable and necessary for the efficient operation of the service.

19. ***SUBSEQUENT EVENTS***

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events which have occurred subsequent to June 30, 2013, and through September 12, 2013, the date on which the financial statements were available to be issued.

On Monday, July 8, 2013, the Authority opened the Louis D. Pettine Transportation Center on 4th Street in Fall River.

On August 14, 2013, the Massachusetts Department of Transportation signed the fiscal year 2014's contract assistance in the amount of \$4,907,660 of which half the amount (\$2,453,830) was received by the Authority on that date.

The Authority issued a Revenue Anticipation Note (RAN) dated August 30, 2013 in the amount of \$4,700,000 with an interest rate of 0.75%. The due date of the RAN is August 29, 2013 and is to be used to fund operating expenses.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements (Continued)

June 30, 2013

20. **RESTATEMENT NOTE**

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

Net position, beginning of year	\$ 21,306,306
Restatement to correct EOTC reserve in operating fund	353,363
Restatement to correct excess within EOTC reserve and reclass to the stabilization fund	<u>134,598</u>
Net position, beginning of year, restated	<u>\$ 21,794,267</u>

21. **810 CMR 53.03(2) DISCLOSURE**

The Administrator (CEO), date of hire November 30, 2011, compensation for fiscal year 2013 was \$92,500. The CEO was paid \$1,779 for one week of unused vacation time buyback as per the Authority's personnel policies. The CEO receives a family health insurance plan and contributes 25% of the cost of the premium.

The Chief Financial Officer (CFO), date of hire October 5, 2011, compensation for fiscal year 2013 was \$80,325. The CFO receives a family health insurance plan and contributes 25% of the cost of the premium.

Advisory Board members and officers do not receive compensation.

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Statement of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2013

	Budget As Adopted	Appropriations and Transfers	Total Available	Actual	Variance Favorable (Unfavorable)
Revenues:					
Cash Fares:					
Farebox revenue - fixed route	\$ 1,893,750	\$ (14,576)	\$ 1,879,174	\$ 1,982,337	\$ 103,163
Farebox revenue - paratransit	101,000	29,000	130,000	140,449	10,449
Expanded service revenue	33,000	17,583	50,583	46,876	(3,707)
Auxiliary revenue	119,858	118,797	238,655	395,951	157,296
Total revenues	2,147,608	150,804	2,298,412	2,565,613	267,201
Expenses:					
Operating/Cost of Service:					
Fixed Route and Paratransit	11,433,808	(300,408)	11,133,400	11,124,978	8,422
Fuel	1,400,000	(65,598)	1,334,402	1,250,903	83,499
Insurance	551,705	92,795	644,500	687,100	(42,600)
Management fees	185,100	-	185,100	185,100	-
SRTA administration	846,785	120,032	966,817	1,016,289	(49,472)
ITC operations	146,465	(146,465)	-	-	-
Interest expense and fees	150,000	(85,000)	65,000	108,982	(43,982)
Total expenses	14,713,863	(384,644)	14,329,219	14,373,352	(44,133)
Other financing sources (uses):					
Net Cost of Service	12,566,255	(535,448)	12,030,807	11,807,739	(223,068)
Total other financing sources (uses):	12,566,255	(535,448)	12,030,807	11,807,739	(223,068)
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	
One-time contribution to pension plan				(1,642,468)	
Budgetary retained earnings at the end of year				\$ -	

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

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Notes to Statement of Revenues and Expenses - Budgetary Basis

For the Year Ended June 30, 2013

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, 2013 are as follows:

Increase (decrease) in net position - GAAP basis	\$ 4,478,427
Capital grants and contributions	(6,724,145)
Depreciation	2,293,927
Amortization	(48,840)
Miscellaneous adjustments	631
Increase (decrease) in net position - Budget basis	<u><u>\$ -</u></u>

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SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Schedule of Funding Progress

For the Year Ended June 30, 2013

(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%
07/01/11	2012	\$ 16,372,704	\$ 20,290,025	\$ 3,917,321	80.7%	\$ 5,120,744	76.5%
07/01/12	2013	\$ 17,097,572	\$ 21,444,407	\$ 4,346,835	79.7%	\$ 5,767,336	75.4%

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.

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SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Schedule of Employer Contributions

For the Year Ended June 30, 2013

(Unaudited)

Year Ended June 30	Range of Annual Required Contributions		Actual Contributions
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
2013	1,008,041	1,647,037	1,112,862

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, 2012. The actuarial cost methods, actual assumptions and plan provisions are the same as those employed in the prior actuarial valuation (Salaried Plan).

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Required Supplementary Information

Schedule of Employer Contributions (Continued)

For the Year Ended June 30, 2013

(Unaudited)

Assumptions (Collective Bargaining):

- Mortality table is the 2012 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, 2012. 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
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Supplementary Information

Statement of Revenue and Cost of Service

For the Year Ended June 30, 2013

Transportation revenue	<u>\$ 2,169,662</u>
Operating expenses:	
Fixed route and paratransit	11,124,978
Amortization of grants	2,293,927
Fuel	1,250,903
Insurance	687,100
SRTA administration	1,016,289
Management fees	<u>185,100</u>
Total operating expenses	<u>16,558,297</u>
Net operating loss	(14,388,635)
Other income:	
Interest income	20,012
Auxiliary income	375,939
Interest expense	<u>(108,982)</u>
Cost of service in excess of revenue	<u>\$ (14,101,666)</u>

See independent auditor's report

SOUTHEASTERN REGIONAL TRANSIT AUTHORITY
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Supplementary Information

Statement of Unreimbursed Cost of Service

For the Year Ended June 30, 2013

Balance at beginning of year	\$ <u> -</u>
Cost of service in excess of revenue	<u>(14,101,666)</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 - State Contract Assistance	5,248,432
Local assessments	2,092,654
Federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964	4,419,777
Section 5311 Expanded Service Assistance	<u>46,876</u>
Total operating net cost of service reimbursements	11,807,739
Amortization of grants	<u>2,293,927</u>
Total Subsidy	<u>14,101,666</u>
Balance at end of year	<u><u> -</u></u>

See independent auditor's report