

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS**

Year Ended June 30, 2011

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

June 30, 2011

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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, 2011, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control on financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2011, on our consideration of Southeastern Regional Transit Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budgetary comparison and the schedules of funding progress and employers' contribution on pages 3 to 10 and 27 to 31 respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Southeastern Regional Transit Authority's basic financial statements. The accompanying supplementary information on page 33 to 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Hague, Sabady & Co. PC*

September 15, 2011

# SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis (Unaudited)

June 30, 2011

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, 2011 and June 30, 2010. 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 11.

### **FINANCIAL Highlights:**

- Total operating revenue increased from \$12.4 million in fiscal year 2010 to \$13.4 million in fiscal year 2011.
- The operating expenses increased from \$13.4 million in fiscal year 2010 to \$14.7 million in fiscal year 2011.
- The net cost of service in excess of revenue as defined by the Commonwealth increased from \$6.1 million in fiscal year 2010 to \$6.4 million in fiscal year 2011. (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, 2011

**CONDENSED FINANCIAL INFORMATION**

**Net Assets.** The Authority's net assets increased between fiscal years ended June 30, 2011 and June 30, 2010. 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>2011</u>	<u>2010</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Assets:				
Current assets	\$ 13,635,189	\$ 14,931,083	\$ (1,295,894)	(8.68%)
Capital assets	<u>15,550,278</u>	<u>9,416,029</u>	<u>6,134,249</u>	<u>65.15%</u>
Total assets	<u>29,185,467</u>	<u>24,347,112</u>	<u>4,838,355</u>	<u>19.87%</u>
Liabilities:				
Current liabilities	10,004,857	11,579,498	(1,574,641)	(13.60%)
Long-term liabilities	<u>822,913</u>	<u>806,612</u>	<u>16,301</u>	<u>2.02%</u>
Total liabilities	<u>10,827,770</u>	<u>12,386,110</u>	<u>(1,558,340)</u>	<u>(12.58%)</u>
Net Assets:				
Unrestricted	669,842	1,984,566	(1,314,724)	(66.25%)
Restricted - overdrawn NCS	1,642,468		1,642,468	
Restricted - FR terminal	495,109		495,109	
Investment in capital assets, net of related debt	<u>15,550,278</u>	<u>9,976,436</u>	<u>5,573,842</u>	<u>55.87%</u>
Total net assets	<u>\$ 18,357,697</u>	<u>\$ 11,961,002</u>	<u>\$ 6,396,695</u>	<u>53.48%</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

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

June 30, 2011

**Changes in Net Assets.** The Authority's total revenue increased by 8.1% to \$13,419,971. See Table 2. The change was caused by an increase in grant and service revenue, which increased a total of \$864,914 (combined) over fiscal year 2010. Operating expenses also increased by \$1.3 million in the current year.

**Table 2**

	<u>2011</u>	<u>2010</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
Operating revenue:				
Service revenue	\$ 1,976,707	\$ 1,707,298	\$ 269,409	15.78%
Grants	9,386,423	8,790,918	595,505	6.77%
Local assessment	1,991,817	1,855,350	136,467	7.36%
Other income	<u>65,024</u>	<u>58,156</u>	<u>6,868</u>	<u>11.81%</u>
Total operating revenue	<u>13,419,971</u>	<u>12,411,722</u>	<u>1,008,249</u>	<u>8.12%</u>
Operating expenses:				
Transportation services including maintenance	12,484,012	11,310,317	1,173,695	10.38%
General and administrative	474,481	745,326	(270,845)	(36.34%)
Depreciation	<u>1,811,622</u>	<u>1,375,341</u>	<u>436,281</u>	<u>31.72%</u>
Total operating expenses	<u>14,770,115</u>	<u>13,430,984</u>	<u>1,339,131</u>	<u>9.97%</u>
Operating gain (loss)	(1,350,144)	(1,019,262)	2,678,262	32.46%
Nonoperating revenues/(expenses)	<u>(153,592)</u>	<u>(217,177)</u>	<u>63,585</u>	<u>(29.28%)</u>
Net loss before capital grants	(1,503,736)	(1,236,439)	2,741,847	21.62%
Capital grants and contributions	<u>7,900,431</u>	<u>1,881,050</u>	<u>6,019,381</u>	<u>320.00%</u>
Increase (decrease) in net assets	6,396,695	644,611	5,752,084	892.33%
Net assets, beginning of year	<u>11,961,002</u>	<u>11,316,391</u>	<u>644,611</u>	<u>5.70%</u>
Net assets, end of year	<u>\$ 18,357,697</u>	<u>\$ 11,961,002</u>	<u>\$ 6,396,695</u>	<u>53.48%</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

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

June 30, 2011

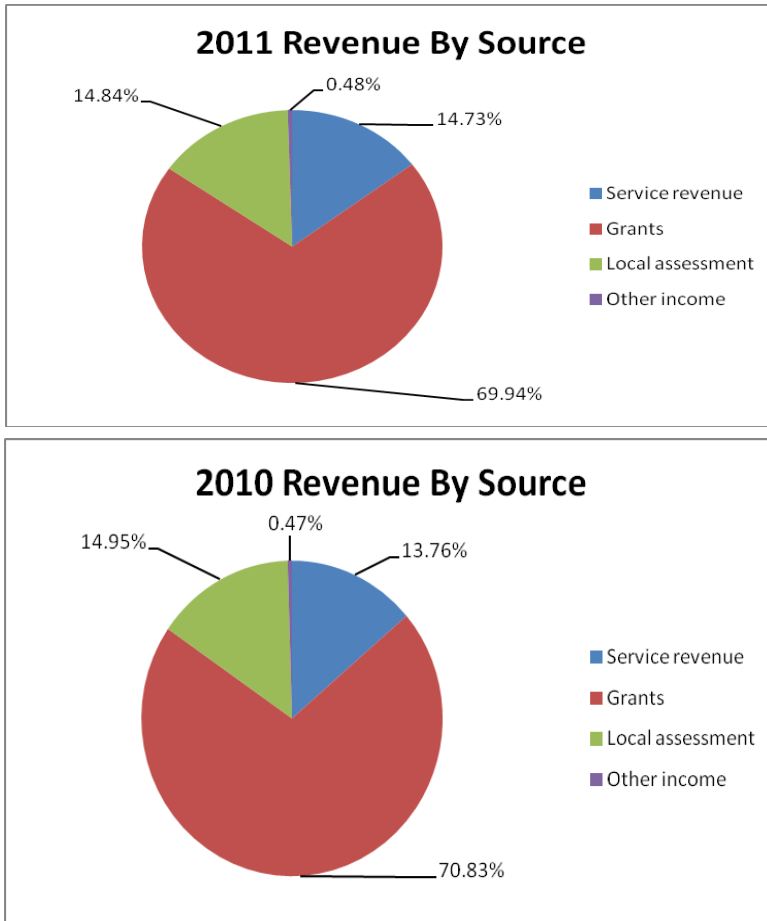
**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Approximately seventy percent for 2011 and seventy-one percent for 2010 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 14.73%, 14.84% and 0.48% respectively for 2011 and 13.76%, 14.95% and 0.47% respectively for 2010. See Table 3.

The operation of bus service is contracted to Union Street Bus Company, Inc. and a management fee is paid. Transportation service expenses are reimbursed to Union Street Bus Company monthly upon receipt of an invoice detailing the monthly expenses. 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. See Table 4.

Approximately 84.21% of the operating cost relates to the cost of transportation services (i.e. salaries and fringe benefits) with 10.24% of the operating cost representing non-cash depreciation and amortization costs for 2010.

**Table 3**



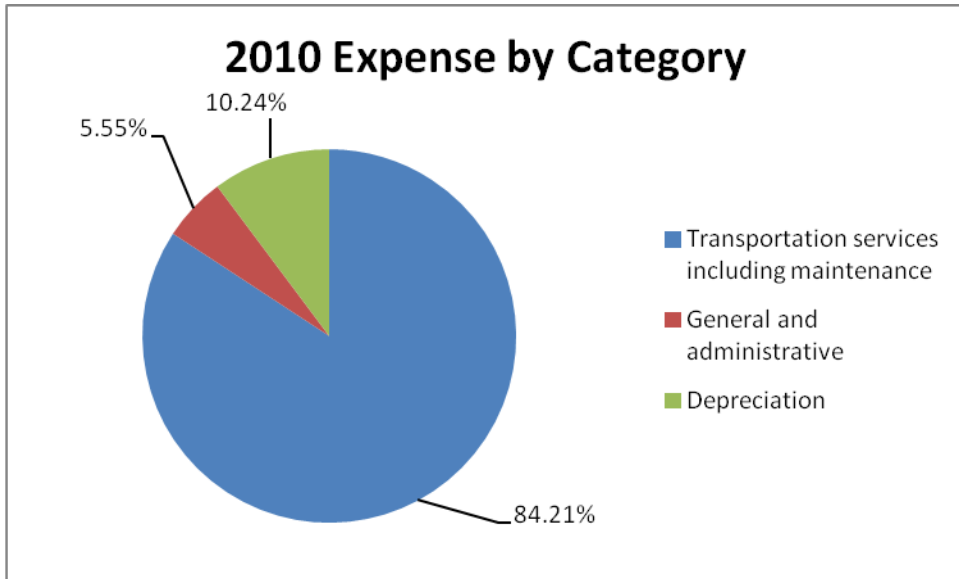
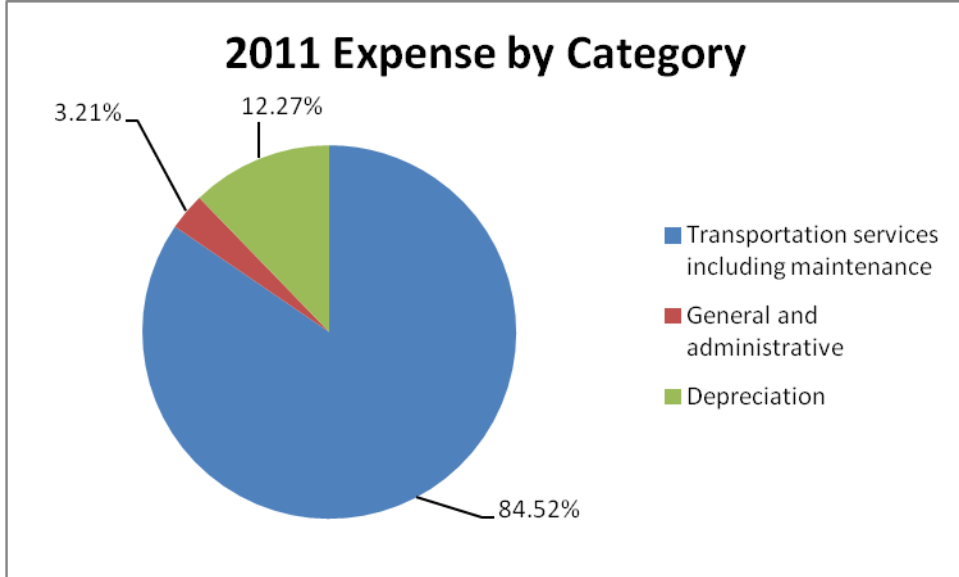


**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

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

June 30, 2011

**Table 4**



**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

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

June 30, 2011

**DISCUSSION AND ANALYSIS OF BALANCES AND TRANSACTIONS**

The Authority finished the current year with an increase in net assets of \$6,396,695. The increase is a result of the difference between those assets capitalized in the current year as compared to the total depreciation recorded.

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 \$65,957,375 during the period from 1975 to 2011 of which \$53,290,114 has been approved grant spending through June 30, 2011. (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, 2011. The unfavorable variances being in insurance expense and miscellaneous expenses; and the favorable being in diesel fuel, salaries and fringe expenses. 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 2011, the Authority had invested \$34.8 million in property, plant and equipment. \$9.6 million had been invested in buildings and improvements with the remaining \$25.2 million in buses and equipment. This amount represents a 10.7% increase or \$3.37 million (including acquisitions and dispositions) over fiscal year 2010 when the Authority had \$31.4 million invested in property, plant and equipment of which \$9.6 million had been invested in buildings and improvements, with the remaining \$21.8 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>2011</u>	<u>2010</u>
Construction in progress	\$ 386,123	\$ 29,573
Buildings and improvements, net	4,276,292	4,315,479
Buses and equipment, net	9,824,937	3,520,730
Service equipment, net	465,461	544,938
Furniture and fixtures, net	174,172	141,326
Planning, net	<u>423,293</u>	<u>340,127</u>
Total	<u>\$15,550,248</u>	<u>\$ 8,892,173</u>

As of June 30, 2011 and 2010 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, 2011

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

The Authority will be closely monitoring the impact of the 2010 Census and its relationship to the future determination of Federal Funding levels as the Urbanized Area Designation may change. The Authority has no indication that funding will be increased nor decreased at this time and will await the deliberations in the US Congress as it relates to the reauthorization of the multi-year federal transportation bill. The Authority has the opportunity to utilize available federal funds to maintain its existing levels of service provided there is an environment of stable state and local funding. The Authority is presently analyzing the need to expand service to evenings, Sunday, with possible modification of routes and modal expansion. This effort will result in the development of a service and financial plan that will involve stakeholders, board members and potential funding partners.

The Authority will add capacity to its staff and operations at an additional expense during the upcoming fiscal year. This will enable the Authority to meet its core mission to its customers, member communities, funding partners and the taxpayers.

The Authority anticipates that ridership and fare revenue will remain stable during the upcoming fiscal year. The Authority is in the design stage for a new intermodal passenger facility in the City of Fall River that is expected to be completed over the next two fiscal years.

### **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 Arthur Frank, Attorney, Southeastern Regional Transit Authority, 700 Pleasant Street, First Floor, New Bedford, MA 02740-6263.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Net Assets

June 30, 2011

**Assets**

Current Assets:	
Cash and cash equivalents	\$ 1,222,479
Receivables:	
State grants receivable	6,909,707
Federal grants receivable	4,350,400
Other receivables	10,344
Inventory, net	585,078
Prepaid expenses	554,121
Other assets	<u>3,060</u>
Total current assets	<u>13,635,189</u>
Non-Current Assets:	
Construction in progress	386,123
Building and improvements, net	4,276,292
Buses and equipment, net	9,824,937
Service equipment, net	465,461
Furniture and fixtures, net	174,172
Planning, net	<u>423,293</u>
Total non-current assets	<u>15,550,278</u>
Total assets	<u>\$ 29,185,467</u>

**Liabilities**

Current Liabilities:	
Revenue anticipation notes payable	\$ 8,705,400
Accounts payable and other liabilities	591,972
Accrued salaries payable	98,501
Accrued interest payable	125,137
Due to commonwealth	22,161
Due to federal government	419,469
Compensated absences, due within one year	<u>42,217</u>
Total current liabilities	<u>10,004,857</u>
Non-Current Liabilities:	
Reserve for extraordinary expense	442,962
Compensated absences, net of current portion	<u>379,951</u>
Total non-current liabilities	<u>822,913</u>
Total liabilities	<u>10,827,770</u>

**Net Assets**

Unrestricted, undesignated	669,842
Restricted - additional net cost of service	1,642,468
Restricted - Fall River terminal	495,109
Investment in capital grants, net of amortization	<u>15,550,278</u>
Total net assets	<u>\$ 18,357,697</u>

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, 2011

Operating Revenues:	
Service revenue	\$ 1,976,707
Grants:	
State operating assistance	4,421,745
Federal operating assistance	4,722,922
Local assessment	1,991,817
Advertising income	33,590
Other income	<u>31,434</u>
Total operating revenues	<u>13,178,215</u>
Operating Expenses:	
Cost of Service:	
Salaries	5,698,731
Fringe	3,533,820
Depreciation	1,811,622
Materials and supplies	515,689
Diesel fuel	953,832
Management fees paid to Union Street Bus Company, Inc.	266,781
Miscellaneous	241,906
Insurance	548,699
Utilities	249,177
Office expense and services	233,621
Administrative:	
Salaries and fringe	217,877
Advertising	11,801
Professional fees	228,356
Office expense	<u>16,447</u>
Total operating expenses	<u>14,528,359</u>
Operating income (loss)	<u>(1,350,144)</u>
Nonoperating Revenues (Expenses):	
Interest income	14,569
Proceeds from sale of capital assets	14,651
Interest expense	(137,812)
Transfer to reserve fund	<u>(45,000)</u>
Total nonoperating revenues (expenses)	<u>(153,592)</u>
Net loss before capital grants	(1,503,736)
Capital grants and contributions	<u>7,900,431</u>
Increase (decrease) in net assets	6,396,695
Net Assets, beginning of year, restated	<u>11,961,002</u>
Net Assets, end of year	<u>\$ 18,357,697</u>

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

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Cash Flows

For the Year Ended June 30, 2011

Cash flows from operating activities:

Cash received from federal, state and local governments	\$ 13,003,001
Cash received from customers	2,041,092
Cash paid to suppliers and employees	<u>(14,154,526)</u>
Net cash provided (used) by operating activities	<u>889,567</u>

Cash flows from noncapital financing activities:

Net proceeds from sale of revenue anticipation notes	8,730,715
Principal payments made on anticipation notes	(9,200,000)
Interest payment on anticipation notes	<u>(240,128)</u>
Net cash used in noncapital financing activities	<u>(709,413)</u>

Cash flows from capital and related financing activities:

Capital revenue from federal and state capital grants	7,900,431
Proceeds from capital assets	14,651
Purchases of capital assets	<u>(7,945,871)</u>
Net cash provided (used) by capital and related financing activities	<u>(30,789)</u>

Cash flows from investing activities:

Interest income on invested funds	<u>14,569</u>
Net cash provided (used) in investing activities	<u>14,569</u>

Net increase (decrease) in cash 163,934

Cash and cash equivalents at beginning of year 1,058,545

Cash and cash equivalents at end of year \$ 1,222,479

Displayed at June 30, 2011 as:

Cash and cash equivalents \$ 1,222,479

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

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2011

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

Operating income( loss)	<u>\$ (1,350,144)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	1,811,622
(Increase) decrease in accounts receivable	1,624,122
(Increase) decrease in inventory	17,313
(Increase) decrease in prepaid expenses	(181,607)
Increase (decrease) in accounts payable and accrued expenses	(1,539,982)
Increase (decrease) in accrued salaries payable	98,501
Increase (decrease) in accrued pay/compensated absences	(31,888)
Increase (decrease) in due to other governments	<u>441,630</u>
	<u>2,239,711</u>
Net cash provided (used) by operating activities	<u>\$ 889,567</u>

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

# SOUTHEASTERN REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

June 30, 2011

### 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 five year intervals, the most recent agreement beginning on January 1, 2006. 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 of federal funding. 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, 2011

## 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, 2011.

Balance at beginning of year	<u>\$ 1,642,468</u>
Cost of service in excess of revenue	(12,967,964)
Expenses not reimbursable and other operating assistance:	
Depreciation and amortization in excess of principal payments on long-term debt	1,831,480
Local assistance	1,991,817
Federal assistance	<u>4,722,922</u>
Net cost of service	(4,421,745)
Net cost of service reimbursed by the Commonwealth	<u>4,421,745</u>
Over reimbursement of cost of service	<u>\$ 1,642,468</u>

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, 2011

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, 2011, 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 reserved net assets as of June 30, 2011.

There were no legal restrictions on net assets as of June 30, 2011. 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. There were no reserved net assets as of June 30, 2011.

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, 2011

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 \$11,801 for the year ended June 30, 2011.

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 \$66,957,375 during the period from 1975 to 2011. 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	\$ 52,802,550	\$ 13,154,825	\$ 65,957,375
Approved grant spending through June 30, 2011	42,694,460	10,595,654	53,290,114
Amortization	<u>(30,073,689)</u>	<u>( 7,666,147)</u>	<u>(37,739,836)</u>
Net grants balance	<u>\$ 12,620,771</u>	<u>\$ 2,929,507</u>	<u>\$ 15,550,278</u>

Receivables for grant expenditures from the federal and state governments were \$11,260,107 as of June 30, 2011. The expenditures were funded by transportation bonds and operating funds.



**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2011

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

The following is the amount due to the Authority as of June 30, 2011:

<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>
07/29/2011					FY11 Local Assess	\$ 485,801
Subtotal of amount received subsequent to year end						<u>485,801</u>
Open A/R					FY10 Local Assess	48,580
Open A/R					FY12 Local Assess	1,991,817
Open A/R	SCA	6005-0015	010	2011	FY11 SCA	<u>4,383,509</u>
Subtotal of amount still outstanding at September 2011						<u>6,423,906</u>
Total amount due from the Commonwealth						6,909,707
Less: current portion						<u>6,909,707</u>
Due from the Commonwealth - noncurrent						<u>\$ 0</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2011

**6. CAPITAL ASSETS AND DEPRECIATION**

	July 1, 2010 Beginning Balance	Restatement	Restated Beginning Balance	Increases	Decreases	June 30, 2011 Ending Balance
Not Being Depreciated:						
Construction in progress	\$ _____	\$ 29,573	\$ 29,573	\$ 356,550	\$ _____	\$ 386,123
Subtotal	_____	29,573	29,573	356,500	_____	386,123
Other Capital Assets:						
Building and improvements	9,630,180	(29,573)	9,600,607	13,939	13,800	9,600,746
Buses and equipment	18,850,054		18,850,054	7,239,539	4,259,622	21,829,971
Service Equipment	1,726,789		1,726,789	234,952	322,327	1,639,414
Furniture and fixtures	568,563		568,563	4,300		572,863
Planning	<u>683,930</u>	_____	<u>683,930</u>	<u>110,392</u>	_____	<u>794,322</u>
Subtotal	<u>31,459,516</u>	<u>(29,573)</u>	<u>31,429,943</u>	<u>7,603,122</u>	<u>4,595,749</u>	<u>34,437,316</u>
Accumulated Depreciation:						
Building and improvements	4,963,295		4,963,295	361,159		5,324,454
Buses and equipment	15,258,941		16,258,941	1,005,715	4,259,622	12,005,034
Service Equipment	1,161,174		1,161,174	335,106	322,327	1,173,953
Furniture and fixtures	355,500		355,500	43,191		398,691
Planning	<u>304,577</u>	_____	<u>304,577</u>	<u>66,452</u>	_____	<u>371,029</u>
Subtotal	<u>22,043,487</u>	_____	<u>22,043,487</u>	<u>1,811,623</u>	<u>4,581,949</u>	<u>19,273,161</u>
Net other assets	<u>9,416,029</u>	<u>(29,573)</u>	<u>9,386,456</u>	<u>5,791,499</u>	<u>13,800</u>	<u>15,164,155</u>
Net capital assets	<u>\$ 9,416,029</u>	<u>\$ _____</u>	<u>\$ 9,416,029</u>	<u>\$ 6,148,049</u>	<u>\$ 13,800</u>	<u>\$15,550,278</u>

Depreciation expense was \$1,811,623 for the fiscal year ended June 30, 2011.

	<u>2011</u>	<u>2010</u>
Construction in progress	\$ 386,123	\$ 29,573
Building and improvements	4,276,292	4,666,885
Buses and equipment	9,824,937	3,591,113
Service equipment	465,461	565,615
Furniture and fixtures	174,172	213,063
Planning	<u>423,293</u>	<u>379,353</u>
	<u>\$ 15,550,278</u>	<u>\$ 9,416,029</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2011

**7. 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, 2011, the Authority had a revenue anticipation note of \$8,700,000 outstanding with interest rate of 1.75% due to mature on September 2, 2011. Of the balance on the note, a premium of \$5,400 remains. The original premium on the note when issued was \$30,715.

The revenue anticipation notes acquired during 2011 were for the purpose of funding operating expenses. Interest expense for 2011 on revenue anticipation notes was \$137,812.

	<u>Interest Rates</u>	<u>Issuance Dates</u>	<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Amortized Premium</u>	<u>Ending Balance</u>
RAN	2.50%	09/08/09	09/03/10	\$ 8,740,084	\$	\$ (8,740,084)		\$
RAN	1.75%	09/03/10	09/02/11		8,730,715		(25,315)	8,705,400
LOAN	4.50%	06/14/10	07/17/10	<u>500,000</u>		<u>(500,000)</u>		
				<u>\$ 9,240,084</u>	<u>\$ 8,730,715</u>	<u>\$ (9,240,084)</u>	<u>\$ (25,315)</u>	<u>\$ 8,705,400</u>

**8. 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 \$3,810,624 for the year ended June 30, 2011.

In addition, there was \$912,298 received from the Federal Department of Transportation of American Recovery and Reinvestment funds for operating assistance for the year ended June 30, 2011.

**9. 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 \$6,413,562, of which \$1,991,817 (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, 2011

#### 10. ***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, 2011 totaled \$50,571.

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

#### 11. ***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, 2011

### 11. ***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 (Union Street Bus Company) 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, 2011, the annual required contribution was \$1,041,378.

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, 2007) 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, 2011

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

Plan Description (Continued)

Membership of each plan consisted of the following at July 1, 2010 the date of the most recent actuarial valuation:

	<u>Salaried Plan</u>	<u>Collective Bargaining Plan</u>	<u>Total</u>
Active participants	30	87	117
Terminated participants with vested benefits	7	29	36
Retired participants and beneficiaries	<u>11</u>	<u>81</u>	<u>92</u>
Total	<u><u>48</u></u>	<u><u>197</u></u>	<u><u>245</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>2011</u>
Hourly Plan (Principal)	\$ 668,757
Salaried Plan (Kenneth D. Anderson)	<u>372,621</u>
Annual Required Contribution (ARC)	<u>\$ 1,041,378</u>
Interest on Net Pension Obligation	(16,850)
Adjustment to Annual Required Contribution	<u>12,036</u>
Annual Pension Costs	1,036,564
Contribution Made	<u>1,041,378</u>
Increase in Net Pension Obligation (NPO)	(4,814)
NPO beginning of the year	<u>(240,717)</u>
NPO end of the year	<u>\$ (245,531)</u>

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Notes to Financial Statements (Continued)

June 30, 2011

11. **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, 2010 and Principal Financial Group (for Collective Bargaining), as of July 1, 2010. The standardized measure of the unfunded actuarial accrued liability as of July 1, 2010 is as follows:

	<b>Salaried Plan July 1, 2010 <u>(Unaudited)</u></b>	<b>Collective Bargaining July 1, 2010 <u>(Unaudited)</u></b>	<b>Total <u>(Unaudited)</u></b>
Inactive participants	\$ 1,137,708	\$ 6,665,805	\$ 7,803,513
Active participants	<u>5,819,563</u>	<u>10,063,125</u>	<u>15,882,688</u>
Total actuarial accrued liability	6,957,271	16,728,930	23,686,201
Net assets available for benefits at market	<u>(3,834,551)</u>	<u>(10,866,614)</u>	<u>(14,701,165)</u>
Transfer of assets due to transferred participants	3,117,720	5,862,316	8,980,036
Normal cost payments	<u>(1,780,920)</u>	<u>(1,934,708)</u>	<u>(3,715,628)</u>
Unfunded actuarial accrued liability	<u>\$ 1,336,800</u>	<u>\$ 3,927,608</u>	<u>\$ 5,264,408</u>

12. **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.

13. **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, 2011

### 14. **RELATED PARTY TRANSACTIONS**

The Authority pays management fees to Union Street Bus 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 September 30, 2011. The following represents the amount paid as management fees for Trans-Ag Management, Inc. through fiscal year 2011:

January 1, 2010 through December 31, 2010 (payable at the rate of \$22,225.92 per month) (contract extended through September 30, 2011)	\$ <u>266,781</u>
Remaining contract	\$ <u>266,781</u>

### 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.

### 16. **COMMITMENTS**

On March 1, 2006 the Southeastern Regional Transit Authority signed an agreement with Bridgestone Firestone North American Tire, LLC through February 28, 2011. This agreement is to lease to 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 Firestone by the 10<sup>th</sup> day of each month a record of the daily revenue and non-revenue vehicles miles. The amount of monthly payments are computed by using the applicable billing rate per tire mile in effect during the preceding month.

Upon expiration of the signed agreement with Bridgestone, Firestone, North American Tire, LLC, the Southeastern Regional Trust Authority did not elect to renew the lease. The Authority is currently in the process of entering into a new tire lease contract.

### 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. **SUBSEQUENT EVENTS**

The following event occurred after the balance sheet date of June 30, 2011:

The authority rolled over revenue anticipation notes (RANs) on September 2, 2011 in the amount of \$8,700,000 at a 1.25% interest rate. The due date on the RAN is August 21, 2012. The purpose of the revenue anticipation note is to fund operation expenses.

On August 31, 2011, the SRTA board approved a new collective bargaining agreement for the period of July 1, 2010 through June 30, 2013.

**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Statement of Revenues and Expenses - Budget and Actual

For the Year Ended June 30, 2011

	<u>Budget As Adopted</u>	<u>Appropriations and Transfers</u>	<u>Total Available</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Farebox revenue	\$ 1,956,588	\$	\$ 1,956,588	\$ 1,976,707	\$ 20,119
Advertising revenue	25,750		25,750	33,590	7,840
Other income	5,150		5,150	31,434	26,284
Interest income	<u>26,950</u>		<u>26,950</u>	<u>13,968</u>	<u>(12,982)</u>
Total revenues	<u>2,014,438</u>		<u>2,014,438</u>	<u>2,055,699</u>	<u>41,261</u>
Expenses:					
Cost of Service:					
Salaries	5,586,720		5,586,720	5,632,118	(45,398)
Fringe	3,822,848		3,822,848	3,677,917	144,931
Depreciation				15,553	(15,553)
Materials and supplies	493,076		493,076	484,170	8,906
Diesel fuel	1,074,702		1,074,702	953,832	120,870
Insurance	556,870		556,870	730,306	(173,436)
Utilities	281,654		281,654	249,177	32,477
Office expense and services	424,572		424,572	500,402	(75,830)
Miscellaneous	23,768		23,768	241,906	(218,138)
Administrative:					
Salaries and fringe	418,798		418,798	197,543	221,255
Advertising	11,948		11,948	11,801	147
Professional fees	145,951		145,951	228,356	(82,405)
Office expense	93,833		93,833	16,447	77,386
Interest (operating)	<u>264,880</u>		<u>264,880</u>	<u>207,655</u>	<u>57,225</u>
Total expenses	<u>13,199,620</u>		<u>13,199,620</u>	<u>13,147,183</u>	<u>52,437</u>
Other financing (sources) uses:					
Transfer to Reserve Fund				(45,000)	(45,000)
Net cost of service	<u>11,185,182</u>		<u>11,185,182</u>	<u>11,136,484</u>	<u>(48,698)</u>
Total other financing sources (uses):	<u>11,185,182</u>		<u>11,185,182</u>	<u>11,091,484</u>	<u>(93,698)</u>
Excess (deficiency) of revenues and other financing sources over expenses and other financing uses					
Budgetary retained earnings at the beginning of year				<u>1,642,468</u>	
Budgetary retained earnings at the beginning of year				<u>\$ 1,642,468</u>	

See independent auditors' 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, 2011

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, 2011 are as follows:

Increase (decrease) in net assets - GAAP basis	\$ 6,396,695
Increase (decrease) in inventory, net	31,519
Increase (decrease) in compensated absences	66,613
Increase (decrease) in prepaid insurances	(181,607)
Increase (decrease) in accrued interest	(69,843)
Proceeds from sale of fixed assets	(14,651)
Interest earned on restricted Fall River Terminal Account	(601)
Capital grants and contributions	(7,900,431)
Depreciation and amortization	<u>1,796,069</u>
Increase (decrease) in net assets - Budget Basis	<u>\$ 123,763</u>

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**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Required Supplementary Information

Schedule of Funding Progress

For the Year Ended June 30, 2011

(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%

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**

Required Supplementary Information

Schedule of Employer Contributions

For the Year Ended June 30, 2011

(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

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:

- 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 age 62 and 10 years of service, or attained age, if higher.

The most recent actuarial valuation of the plan was prepared as of July 1, 2010. Changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the actuarial accrued liability occurred during the current year. As indicated above, the post retirement interest rate has decreased from 7.5% to 7% in relation to the prior year. Additionally, the Mortality Table was updated to a more recent table (the 2010 Applicable Mortality Table). The range of contributions when using these assumptions is higher than the range for the prior actuarial valuation due primarily to the change in assumptions.



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Required Supplementary Information

Schedule of Employer Contributions (Continued)

For the Year Ended June 30, 2011

(Unaudited)

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.

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**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Supplementary Information

Statement of Revenue and Cost of Service

For the Year Ended June 30, 2011

Transportation revenue	\$ <u>1,976,707</u>
Operating expenses:	
Cost of Service:	
Salaries	5,632,118
Fringe	3,677,917
Depreciation and amortization	15,553
Amortization of grants	1,831,480
Materials and supplies	484,170
Diesel fuel	953,832
Management fees paid to Union Street Bus Company, Inc.	266,781
Miscellaneous	241,906
Insurance	730,306
Utilities	249,177
Office expense and services	233,621
Administrative expenses:	
Salaries and fringe	197,543
Advertising	11,801
Professional fees	228,356
Office expense	<u>16,447</u>
	<u>14,771,008</u>
Net operating loss	(12,794,301)
Other income	65,024
Interest income	13,968
Transfer to reserve fund	(45,000)
Interest expense	<u>(207,655)</u>
Cost of service in excess of revenue	\$ <u>(12,967,964)</u>

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**SOUTHEASTERN REGIONAL TRANSIT AUTHORITY**

Supplementary Information

Statement of Unreimbursed Cost of Service

For the Year Ended June 30, 2011

Balance at beginning of year	\$ _____
Cost of service in excess of revenue	<u>(12,967,964)</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	6,413,562
Federal operating assistance pursuant to Section 9 of the Urban Mass Transportation Act of 1964	<u>4,722,922</u>
Total reimbursements	<u>11,136,484</u>
Amortization of grants	<u>1,831,480</u>
Balance at end of year	\$ _____

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