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BROCKTON AREA TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Financial Statements, Required Supplementary Information, and Supplemental Schedules

June 30, 2010

(With Independent Auditors' Report Thereon)

BROCKTON AREA TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

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Independent Auditors' Report

The Advisory Board
Brockton Area Transit Authority:

We have audited the accompanying statement of net assets of the Brockton Area Transit Authority (a component unit of the Massachusetts Department of Transportation) as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Brockton Area Transit Authority's (the Authority) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over 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. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of the Authority as of June 30, 2010, and the changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 and the schedules of funding progress – pension benefits and employers' contributions on page 17 are not required parts of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 them.

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Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The supplemental schedules on pages 18 and 19 are presented for purposes of additional analysis and are not required parts of the financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 17, 2010

The following is offered to the reader of the Brockton Area Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Brockton Area Transit Authority (the Authority) during the fiscal year ended June 30, 2010. Please read this discussion and analysis in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by $16,809,077.
- The Authority's total net assets increased by $758,770 mainly due to an increase in capital grant receipts of $2,311,575.
- The Authority's expenses, except for depreciation, are funded annually through a combination of federal, state, and local assistance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority is a special-purpose government engaged in only business-type activities. As such, its financial statements consist of only those required for proprietary funds and notes to the financial statements.

The proprietary fund statement offers short-and long-term financial information about the business-type activities of the Authority.

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 16 of the report.

Condensed Financial Information

		2010	2009
Current and other assets	$	8,303,980	8,970,022
Noncurrent and capital assets, net		20,076,912	17,362,264
Total assets		28,380,892	26,332,286
Current liabilities		2,571,815	1,381,979
Long-term liabilities		9,000,000	8,900,000
Total liabilities		11,571,815	10,281,979
Net assets:			
Invested in capital assets, net of related debt		16,040,170	16,429,278
Unrestricted		768,907	(378,971)
Total net assets	$	16,809,077	16,050,307

(Continued)

BROCKTON AREA TRANSIT AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2010

Cash flows from operating activities:		
Passenger fares	$	3,246,738
Other cash receipts		361,532
Payments to operators		(9,743,000)
Payments to other vendors		(2,943,218)
Net cash used in operating activities		(9,077,948)
Cash flows from noncapital financing activities:		
Proceeds from sale of revenue anticipation notes		9,000,000
Principal paid on revenue anticipation notes		(8,900,000)
Contract assistance		8,957,791
Interest paid on revenue anticipation notes		(205,050)
Net cash provided by noncapital financing activities		8,852,741
Cash flows from capital and related financing activities:		
Receipt from capital grants		1,623,081
Purchase of capital assets		(1,454,944)
Proceeds from sale of fixed assets		11,110
Net cash provided by capital and related financing activities		179,247
Cash flows from investing activity:		
Interest income		7,424
Net cash provided by investing activity		7,424
Net decrease in cash and cash equivalents		(38,536)
Cash and cash equivalents, beginning of year		602,846
Cash and cash equivalents, end of year	$	564,310
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(11,215,081)
Adjustments:		
Depreciation		1,844,052
Gain on sale of fixed assets		(11,110)
Changes in assets and liabilities:		
Other accounts receivable and other current assets		47,768
Payables and accrued expenses		10,393
Due to operators		242,731
Deferred revenue		3,299
Net cash used in operating activities	$	(9,077,948)

See accompanying notes to financial statements.

(b) ***Capital Assets***

Capital assets are stated at historical cost. Depreciation is computed using the straight-line method over the economic useful life of ten to thirty years for the transfer center and maintenance facility, five to twelve years for buses, twelve years for fareboxes, and five to ten years for equipment. The Authority has had no assets donated to it.

(c) ***Deferred Revenue***

Deferred revenue arises when assets are recorded before eligibility requirements have been met.

(d) ***Cash and Cash Equivalents***

The Authority generally considers all highly liquid, temporary cash investments with original maturities of three months or less to be cash equivalents.

(e) ***Reimbursed Cost of Service***

The legislative act under which the Authority was established provides, among other things, that the Commonwealth reimburses the Authority for the "net cost of service", as defined. A portion of the amount not reimbursed is then assessed to the city and towns constituting the Authority. The "net cost of service," as defined, does not include a charge for depreciation. It does, however, include debt service payments made in connection with long-term indebtedness. For financial reporting purposes, the Authority follows the generally accepted accounting method of depreciating the cost of property over its economic useful life.

(f) ***Capital Grants***

The Authority receives capital grants from certain governmental agencies (note 4) to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment.

(g) ***Use of Estimates***

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

(Continued)

(3) Notes Payable

At June 30, 2010, the Authority had $9,000,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average interest rate of 1.714% and are due August 6, 2010.

		Outstanding at June 30, 2009	Issued	Retired	Outstanding at June 30, 2010
2.19% revenue anticipation note	$	8,900,000	—	8,900,000	—
1.714% revenue anticipation note		—	9,000,000	—	9,000,000
Total	$	8,900,000	9,000,000	8,900,000	9,000,000

Subsequent to year-end, the Authority retired $9,000,000 of the notes outstanding at year-end. The retirement was financed by the borrowing of $9,600,000 of revenue anticipation notes with an interest rate of 1.4926%, and is due August 5, 2011.

(4) Grants

Under Sections 5307 and 5309 of the Transportation Equity Act of the 21st Century of 1998 (the Act), the United States Department of Transportation approves capital grants to fund up to 80% of the Authority's capital improvement projects. The remaining portion of approximately 20% will be financed through state and local funds.

The Authority is also eligible for grants for operating or contract assistance from the United States Department of Transportation. Pursuant to Section IX of the Act, as amended, the federal government may fund up to 50% of the Authority's net cost of service, as defined. Such funds for fiscal 2010 amounted to $2,183,461. The Authority expects to receive approximately the same amount in operating assistance for fiscal 2011.

In addition, for the year ended June 30, 2010, the Authority recognized $155,000 of federal assistance for the Jobs Access Reverse Commute Program.

The Commonwealth of Massachusetts provides for operating assistance to cover a portion of the Authority's net cost of service. The assistance was level funded from the prior fiscal year at $4,946,664.

(5) Due to Operators

The balance at June 30, 2010 of $768,588 includes parts and supplies inventories purchased by the operators for use in the Authority's buses and is stated at lower of cost or market.

(6) Cash and Cash Equivalents

The following represents essential risk information about the Authority's deposits and investments.

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority carries deposits that are fully insured by FDIC insurance.

(b) Investment Policy

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits (including demand deposits, term deposits, and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreement guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (MMDT), an external investment pool.

(c) Interest Rate Risk

As of June 30, 2010, the Authority's only investment was in the State Treasurer's investment pool, MMDT. The fair value of the MMDT investment was $206,833, and its average maturity is less than one year.

(d) Credit Risk

As of June 30, 2010, the Authority's investment in the state investment pool, MMDT, was not rated.

(7) Deferred Revenue, Including Extraordinary Reserve and Stabilization Fund

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses that are both unusual in nature and infrequent in occurrence. The total reserve amount may not exceed 20% of the prior year's local assessment and the annual funding cannot exceed 3% of the current year's local assessment. The accumulated aggregate reserve of $294,511 (which represents 13.12% of the applicable local assessment of $2,245,221) is included in deferred revenue in the accompanying statement of net assets.

Chapter 161B of the General Laws of the Commonwealth has been amended to allow the Authority to establish a stabilization fund, which can be accessed for capital improvements or to offset an unforeseen and dramatic loss of revenue within a fiscal year. The Authority maintains a stabilization fund in the amount of $63,219, which is included in deferred revenue in the accompanying statement of net assets.

(8) Capital Assets

Capital assets consisted of the following at June 30, 2010:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 863,587	—	—	863,587
Total capital assets not being depreciated	863,587	—	—	863,587
Capital assets being depreciated:				
Transfer center and maintenance facility	15,008,707	118,541	—	15,127,248
Buses and fareboxes	17,814,432	2,313,441	550,020	19,577,853
Equipment	3,165,260	171,179	—	3,336,439
Total capital assets being depreciated	35,988,399	2,603,161	550,020	38,041,540
Less accumulated depreciation for:				
Transfer center and maintenance facility	6,299,768	519,979	—	6,819,747
Buses and fareboxes	11,319,006	1,153,571	373,525	12,099,052
Equipment	2,796,999	170,502	—	2,967,501
Total accumulated depreciation	20,415,773	1,844,052	373,525	21,886,300
Total capital assets being depreciated, net	15,572,626	759,109	176,495	16,155,240
Capital assets, net	$ 16,436,213	759,109	176,495	17,018,827

(9) Pension Plan

The Authority terminated its supplemental retirement plan for career employees during fiscal 2008 and joined the Brockton Retirement System (the System) in January 2008. Upon termination of the Authority's supplemental retirement plan, the Authority made a lump-sum contribution to the System equal to the full amount of the terminated supplemental retirement plan.

The System is an agent, multiple-employer, public employee retirement system that acts as the investment and administrative agent for the City of Brockton, the Authority and other public employers within the City of Brockton. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System, which is governed by Chapter 32 of the MGL. The System is overseen by an independent five-member board consisting of the following: Chairperson, City Auditor (Ex-Officio), Mayoral appointment, a member elected by the System members, and a member elected by the other board members.

A complete set of audited financial statements for the System for the fiscal year ended December 31, 2008 can be obtained from the System, 15 Christy's Drive, Suite 2, Brockton, MA 02301.

(a) Contributions

The Authority's employees are required to contribute to the System depending on their employment date. Active members contribute 5%, 7%, 8%, or 9% of their regular gross compensation depending on the date upon which their membership began. Members hired after January 1, 1979 contribute an additional 2% of their regular compensation in excess of $30,000 per year.

The Authority is required to contribute an annual actuarially determined contribution to the System. The Authority's second actuarially required contribution of $83,217 was paid in fiscal year 2010.

The contributions of the plan members and the participating employers are governed by Chapter 32 of the MGL.

(b) Funded Status

The funded status of the Authority's retirement plan as of January 1, 2010, the most recent actuarial valuation date, is as follows:

Actuarially accrued liability (AAL)	$	1,128,693
Actuarial value of plan assets		573,933
Unfunded actuarial accrued liability (UAAL)	$	554,760
Funded ratio (actuarial value of plan assets/AAL)		50.8%
Covered payroll (active plan members)	$	362,141

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

In the January 1, 2010 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.00% investment rate of return, projected salary increases of 4.75%, and cost-of-living adjustments of 3.00% of the lesser of the pension amount and $12,000 per year. The actuarial value of assets was determined using the fair value of investments. The actuarial value of assets is determined using a five-year smoothing of asset returns greater than or less than the assumed rate of return. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2010 was 10 years.

(10) Commitments and Contingencies

The Authority is party to claims in the normal course of business. Management believes that there is no significant liability associated with these claims.

The Authority has received capital and operating financial assistance from federal and state agencies in the form of grants. Funds spent under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. There were no known disallowances in the fiscal year ended June 30, 2010.

BROCKTON AREA TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

June 30, 2010

(Unaudited)

Schedule of Funding Progress – Pension Benefits

Actuarial valuation		Assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
January 1, 2010	$	573,933	1,128,693	554,760	50.8%	$	362,141	153.2%
January 1, 2008		264,995	903,911	638,916	29.3		349,807	182.6

Schedule of Employers' Contributions

		Annual required contribution	Percentage contributed
Fiscal year ended June 30:			
2010	$	83,217	100.0%
2009		84,939	147.1

See accompanying independent auditors' report.

Schedule 1

BROCKTON AREA TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplemental Schedule of Net Cost of Service

Year ended June 30, 2010

		Total urbanized area service
Operating costs:		
Operating and administrative costs (excluding depreciation)	$	715,734
Purchased services:		
Fixed route		9,063,346
Demand response		3,166,860
Debt service – interest expense		166,741
Total operating costs		13,112,681
Federal operating assistance:		
Federal Transportation Administration operating and administrative		2,150,000
Other federal		188,461
Total federal operating assistance		2,338,461
Revenues:		
Operating:		
Farebox revenue		2,256,050
Service and other third-party reimbursements		1,069,837
Other revenue:		
Advertising		108,306
Facility and parking income		115,561
Interest income		7,424
Miscellaneous		25,157
Total revenues		3,582,335
Net operating deficit		7,191,885
Adjustments:		
Extraordinary expenses		—
Net cost of service		7,191,885
Net cost of service funding:		
Local assessments		2,245,221
State contract assistance to be funded		4,946,664
Less partial payments made by the Executive Office of Transportation after June 30, 2010:		
Partial payment August 24, 2010		4,451,997
Balance requested from the State for fiscal year 2010		494,667
Outstanding balance requested from the State fiscal year 2008		180,641
Total balance requested from the State on June 30, 2010	$	675,308

See accompanying independent auditors' report.

Schedule 2

BROCKTON AREA TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Supplemental Schedule of Net Cost of Service – Calculation Worksheet

Year ended June 30, 2010

Proof calculations and other required information:

A.	Prior year operating expenses, net of fully funded costs brokerage service	$	13,033,170
	Allowable percentage increase		2.5%
	Prior year net operating expense times 2.5%		325,829
	Current year allowable net operating expense	$	13,358,999
B.	Extraordinary expenses	$	—
	Prior year local assessment		2,245,221
	Percentage of extraordinary to prior year local assessment (not to exceed 3%)		—%
C.	Aggregate amount of reserve account at June 30	$	294,511
	Prior year local assessment		2,245,221
	Percentage of reserve account to prior year assessment (not to exceed 20%)		13.12%
D.	State the management fee paid to major service providers as a percentage of operating costs incurred		1.45%
E.	State the percentage of benefits paid by BAT on behalf of BAT employees for:		
	Group life and accidental death insurance		100%
	Group health insurance		75
F.	State the brokerage service contracts' costs as a percentage of total operating costs		—%
G.	Stabilization fund:		
	Current year	$	—
	Aggregate balance		63,219

See accompanying independent auditors' report.