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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, 2012

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Boston, MA 02111

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 (the Authority) (a component unit of the Massachusetts Department of Transportation) as of June 30, 2012, 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 Authority's 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, 2012, 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 26, 2012 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedules of funding progress on pages 3-7 and 18 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

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental schedules listed in the table of contents have 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

September 26, 2012

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

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

The following is offered to the readers 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, 2012. Please read this discussion and analysis in conjunction with the Authority's financial statements, which begin on page 8.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by $19,528,184.
- The Authority's total net assets increased by $884,716 during fiscal year 2012 and increased by $1,834,391 during fiscal year 2011. This decrease of $949,675 from fiscal year 2011 is mainly due to a decrease in capital grants.
- The Authority's operating expenses, less operating revenues and 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.

BROCKTON AREA TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2012

Operating revenues:		
Passenger fares	$	3,732,479
Reimbursement of maintenance		77,000
Facility and parking income		109,085
Advertising		109,517
Miscellaneous		23,683
Total operating revenues		4,051,764
Operating expenses:		
Transportation services		9,996,695
Materials, supplies, and maintenance		1,758,993
Insurance		772,113
Professional and management services		411,607
Marketing and advertising		32,959
Administrative and general		669,324
Total operating expenses, excluding depreciation		13,641,691
Depreciation		2,323,312
Total operating expenses, including depreciation		15,965,003
Operating loss		(11,913,239)
Nonoperating revenues (expenses):		
Local assessments		2,447,886
Contract assistance (note 4):		
Federal		2,173,836
Commonwealth of Massachusetts		5,238,946
Interest income		6,627
Interest expense		(120,830)
Total nonoperating revenues		9,746,465
Loss before capital grants		(2,166,774)
Extraordinary Expense and Stabilization Fund		(138,437)
Capital program:		
Federal grants		2,031,562
Commonwealth of Massachusetts grant		1,158,365
Total capital grants		3,189,927
Increase in net assets		884,716
Net assets, beginning of year		18,643,468
Net assets, end of year	$	19,528,184

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:		
Passenger fares	$	3,445,020
Other cash receipts		259,937
Payments to operators		(10,417,500)
Payments to other vendors		(2,260,094)
Net cash used in operating activities		(8,972,637)
Cash flows from noncapital financing activities:		
Proceeds from sale of revenue anticipation notes		9,800,000
Principal paid on revenue anticipation notes		(9,600,000)
Contract assistance		9,846,435
Interest paid on revenue anticipation notes		(161,105)
Net cash provided by noncapital financing activities		9,885,330
Cash flows from capital and related financing activities:		
Receipt from capital grants		1,516,421
Purchase of capital assets		(1,752,032)
Proceeds from sale of fixed assets		12,237
Net cash used in capital and related financing activities		(223,374)
Cash flows from investing activity:		
Interest income		6,627
Net cash provided by investing activity		6,627
Net increase in cash and cash equivalents		695,946
Cash and cash equivalents, beginning of year		599,655
Cash and cash equivalents, end of year	$	1,295,601
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(11,913,239)
Adjustments:		
Depreciation		2,323,312
Gain on sale of fixed assets		(12,237)
Changes in assets and liabilities:		
Other accounts receivable and other current assets		(47,111)
Payables and accrued expenses		317,378
Due to operators		71,801
Deferred revenue		287,459
Net cash used in operating activities	$	(8,972,637)

See accompanying notes to financial statements.

(1) The Authority and Operations

The Brockton Area Transit Authority (the Authority) was established on September 30, 1974 by the City of Brockton pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth of Massachusetts (the Commonwealth) to provide transit services to the City of Brockton and the surrounding region.

The following towns are also members of the Authority:

Town	Date of membership
Avon	August 1976
Stoughton	November 1977
Bridgewater	December 1985
East Bridgewater	May 1986
Abington	May 1987
West Bridgewater	April 1988
Whitman	December 1991
Easton	April 1992
Rockland	January 2009

(2) Summary of Significant Accounting Policies

(a) Reporting Entity and Basis of Accounting

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

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions by and on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from the Authority providing transit services to its member communities. All other revenues and expenses are classified as nonoperating revenues and expenses.

The Authority has adopted the option to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(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 three 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.

(3) Notes Payable

At June 30, 2012, the Authority had $9,800,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average interest rate of 1.089% and are due August 3, 2012.

	Outstanding at June 30, 2011	Issued	Retired	Outstanding at June 30, 2012
1.4926% revenue anticipation note	$ 9,600,000	—	9,600,000	—
1.4917% revenue anticipation note	—	9,800,000	—	9,800,000
Total	$ 9,600,000	9,800,000	9,600,000	9,800,000

Subsequent to year-end, the Authority retired $9,800,000 of the notes outstanding at year-end. The retirement was financed by the borrowing of $9,800,000 of revenue anticipation notes with a weighted average interest rate of .7105%, and is due August 2, 2013.

(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 2012 amounted to $1,924,819. The Authority expects to receive approximately the same amount in operating assistance for fiscal 2013.

In addition, for the year ended June 30, 2012, the Authority recognized $162,184 of federal assistance for the Jobs Access Reverse Commute Program and the Authority recognized $86,833 of federal assistance for Jobs Access Reverse Commute/New Freedoms for new service provided.

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 plus an award of additional assistance of $292,282 in fiscal year 2012.

(5) Due to Operators

The balance at June 30, 2012 of $933,418 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, 2012, the Authority's only investment was in the State Treasurer's investment pool, MMDT. The fair value of the MMDT investment was $804,497, and its average maturity is less than one year.

(d) Credit Risk

As of June 30, 2012, 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 $438,173 (which represents 17.90% of the applicable local assessment of $2,447,886) 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 $193,219, which is included in deferred revenue in the accompanying statement of net assets.

An addition to deferred revenue in an amount of $292,282 resulted from MGL 32 sec 5 and 6 recognized as nonrecurring.

(Continued)

(8) Capital Assets

Capital assets consisted of the following at June 30, 2012:

	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	15,148,768	118,344	—	15,267,112
Buses and fareboxes	22,318,090	2,401,207	1,950,029	22,769,268
Equipment	3,836,682	322,939	64,252	4,095,369
Total capital assets being depreciated	41,303,540	2,842,490	2,014,281	42,131,749
Less accumulated depreciation for:				
Transfer center and maintenance facility	7,367,776	528,576	—	7,896,352
Buses and fareboxes	12,103,418	1,587,850	1,950,029	11,741,239
Equipment	3,128,818	206,886	64,252	3,271,452
Total accumulated depreciation	22,600,012	2,323,312	2,014,281	22,909,043
Total capital assets being depreciated, net	18,703,528	519,178	—	19,222,706
Capital assets, net	$ 19,567,115	519,178	—	20,086,293

(9) Pension Plan

The Authority is a participant in the Brockton Retirement System (the System). 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, 2011 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 actuarially required contribution of $50,578 was paid in fiscal year 2012.

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, 2012.

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

Required Supplementary Information

June 30, 2012

(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:			
2012	$	50,578	100.0%
2011		83,384	100.0
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, 2012

		Total urbanized area service
Operating costs:		
Operating and administrative costs (excluding depreciation)	$	718,082
Purchased services:		
Fixed route		9,262,614
Demand response		3,518,716
Debt service – interest expense		120,830
Subtotal operating costs		13,620,242
Fiscal Year 2008 State Contract Assistance Receivable		142,279
Total operating costs		13,762,521
Federal operating assistance:		
Federal Transportation Administration operating and administrative		1,924,819
Other federal		249,017
Total federal operating assistance		2,173,836
Revenues:		
Operating:		
Farebox revenue		2,769,392
Service and other third-party reimbursements		1,040,087
Other revenue:		
Advertising		109,517
Facility and parking income		109,085
Interest income		6,627
Miscellaneous		23,683
Total revenues		4,058,391
Net operating deficit		7,530,294
Adjustments:		
Extraordinary expenses		73,437
Stabilization Fund		65,000
Vehicle Options and Misc.		18,101
Net cost of service		7,686,832
Net cost of service funding:		
Local assessments		2,447,886
Subtotal State contract assistance to be funded		5,238,946
MGL Chpt. 32 Section 5 and 6		292,282
State contract assistance to be funded		5,531,228
Less partial payments made by the Massachusetts Department of Transportation after June 30, 2012:		
Partial payment August 9, 2012		4,699,331
Balance requested from the State for fiscal year 2012	$	831,897

See accompanying independent auditors' report.

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, 2012

Proof calculations and other required information:		
A. Prior year operating expenses, net of fully funded costs brokerage service	$	13,274,910
Allowable percentage increase		2.5%
Prior year net operating expense times 2.5%		331,873
Current year allowable net operating expense	$	13,606,783
B. Extraordinary expenses	$	73,437
Prior year local assessment		2,447,886
Percentage of extraordinary to prior year local assessment (not to exceed 3%)		3.0%
C. Aggregate amount of reserve account at June 30	$	438,173
Prior year local assessment		2,447,886
Percentage of reserve account to prior year assessment (not to exceed 20%)		17.90%
D. State the management fee paid to major service providers as a percentage of operating costs incurred		1.41%
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	$	65,000
Aggregate balance		193,219

See accompanying independent auditors' report.