LOWELL REGIONAL TRANSIT AUTHORITY

FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS

JUNE 30, 2011

LOWELL REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Lowell Regional Transit Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lowell Regional Transit Authority (the Authority), a component unit of the Commonwealth of Massachusetts, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2011 and the respective changes in financial position and 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 12, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 20 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roland P. Lambalot, PC

Methuen, Massachusetts
September 12, 2011

The following is offered to the readers of the Lowell Regional Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Lowell Regional Transit Authority (the Authority) during the fiscal year ended June 30, 2011. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 7.

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to James H. Scanlan, Administrator, Lowell Regional Transit Authority, 145 Thorndike Street, Lowell, Massachusetts 01850.

Overview of the Financial Statements

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

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These are followed by the notes to the financial statements. In addition to the financial statements, this report also contains supplemental schedules pertaining to the net cost of service of the Authority.

> The statement of net assets presents information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
>
> The statement of revenues, expenses and changes in net assets reports the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the fiscal year with the difference – the increase or decrease in net assets – being combined with any capital grants to determine the net change in assets for the fiscal year. That change combined with the previous year's end net asset total reconciles to the net asset total at the end of this fiscal year.
>
> The statement of cash flows reports cash and investment activities for the fiscal year resulting from operating activities, capital and related activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash and investment balance reconciles to the cash and investment balance of the current fiscal year.

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements and can be found on pages 10 through 19 of the report.

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Current and other assets	$ 8,252,170	$ 7,982,554
Capital assets, net	27,969,816	28,229,638
Total assets	36,221,986	36,212,192
Current liabilities	8,252,170	7,982,554
Long term liabilities	-	-
Total liabilities	8,252,170	7,982,554
Net assets:		
Invested in capital assets, net of related debt	27,969,816	28,229,368
Restricted	-	-
Unrestricted	-	-
Total net assets	$ 27,969,816	$ 28,229,368
Operating revenue		
Revenue from transportation	$ 1,135,973	$ 1,105,363
Other	1,366,573	1,287,120
Total operating revenues	2,502,546	2,392,483
Operating expenses:		
Transportation services	7,496,128	7,246,641
Other operating expenses	1,643,867	1,578,049
Total operating expenses, excluding depreciation	9,139,995	8,824,690
Depreciation and amortization	2,553,143	2,549,318
Total operating expenses, including depreciation	11,693,138	11,374,008
Operating loss	(9,190,592)	(8,981,525)
Net nonoperating revenue	6,637,449	6,432,207
Loss before capital grants	(2,553,143)	(2,549,318)
Capital grants and contributions	2,293,321	1,885,472
Change in net assets	(259,822)	(663,846)
Beginning of year net assets	28,229,638	28,893,484
End of year net assets	$ 27,969,816	$ 28,229,638

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by $27,969,816. The Authorities total net assets decreased by $259,822 mainly due to the depreciation of fixed assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

The Authority's net assets consist of its investment in capital assets (e.g., land, buildings, vehicles, and other equipment). The Authority uses these capital assets to provide fixed route and paratransit services to individuals within its service area; consequently, these net assets are not available for future spending. Although the Authority's investment in capital assets is reported as net of related debt, it should be noted that the resources needed to repay any related debt outstanding must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Key factors in the changes in revenues and expenses are as follows:

- Passenger fares increased $30,610, or 2.77%, due to an increase in ridership during the year.
- Total operating expenses, excluding depreciation, increased by $315,305, or 3.57%, due to new services.
- Revenues from assessments from member municipalities increased due to new service implemented during the year.
- Federal operating and capital assistance increased. State assistance was level funded.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2011 amounted to $27,969,816 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions during the fiscal include the following:

Building improvements	$ 2,206,200
Transit equipment	26,516
Service vehicle	26,135
Service equipment	34,470
	$ 2,293,321

The Authority acquires its capital assets under federal capital grants and state matching funds.

At year-end, the Authority had $7,650,000 of notes outstanding, an increase of $150,000 from the prior year.

Economic Factors and Next Year's Budgets

Funding the Authority's net cost of service consists of non-capital expenses less all non-capital revenues, except member municipality assessments and contract assistance from the Commonwealth of Massachusetts. The net cost of service is funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. Local assessments can make up to 50% of the Authority's net cost of service, but must subsidize at least 25% of the net cost of service. The remaining net cost of service, after local assessments, is funded by the Commonwealth. The Commonwealth will fund a minimum of 50% and a maximum of 75% of the Authority's net cost service. This portion of the net cost of service is funded a year in arrears by the Commonwealth (the Authority's fiscal 2011 assistance will be included in the State's fiscal 2012 budget).

The LRTA has completed its Bus Replacement Program. All of the LRTA's buses are six years or less. The LRTA has an active fleet of approximately fifty buses of which forty-three are needed during the peak hours.

During the past year, the LRTA received over 4.8 million dollars of AARA stimulus funding along with a 1.5 million discretionary grant to provide solar panels to its main operations center at Hale Street. The 4.8 million dollars is realizing significant improvements to the LRTA's infrastructure and operating systems. Specifically, the LRTA has made many improvements to the Gallagher Transportation Center and the Hale Street Operations Center. Additionally, the LRTA is procuring a new bus fare collection system, automatic vehicle location systems for its bus and paratransit fleets, along with scheduling software for its paratransit fleet. The LRTA is nearing completion of a new roof and solar panels to its Hale Street facility. This project costs approximately five million dollars and is scheduled to be completed in October of this year. This project is being funded from a contribution of federal and state funding and will result in the reduction of CO_2 emissions along with an estimated annual energy savings of $80,000.

The LRTA will soon be installing a new automatic fare collection system for its buses. This system is similar to the MBTA's Charlie Card system and will negate the use of paper transfers and paper passes. The LRTA will be able to better monitor its ridership and revenue collection. This system is scheduled to be completed by November of this year.

The LRTA ridership for the 2011 fiscal year was 1.3 million passengers and revenue exceeded budget projections.

In the upcoming year, the LRTA will be looking to increase service and ridership while reducing inefficiencies.

Additionally, the LRTA will continually look to increase non-fare revenues and improve efficiencies.

LOWELL REGIONAL TRANSIT AUTHORITY
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Statement of Net Assets

June 30, 2011

Assets

Current assets:	
Unrestricted cash and temporary cash investments (note 2)	$ 777,579
Certificates of deposit	813,708
Receivables:	
Federal operating assistance	199,139
State contract assistance	3,218,513
Federal capital assistance	180,909
State capital assistance	5,071
Local assessments	2,805,283
Other	207,261
Prepaid expenses	44,707
Total current assets	8,252,170
Non-current assets:	
Capital assets, net (note 4)	
Land	1,454,571
Buildings and improvements	37,944,130
Equipment, furniture, fixtures, and vehicles	16,096,367
Less accumulated depreciation	(27,525,252)
Total non-current assets	27,969,816
Total Assets	$ 36,221,986

Liabilities

Current liabilities:	
Accounts payable	$ 375,763
Accrued sick and vacation	69,042
Other post employment benefits (note 7)	18,346
Accrued interest payable	139,019
Revenue anticipation notes payable (note 5)	7,650,000
Total current liabilities	8,252,170

Net Assets

Invested in capital assets, net of related debt	27,969,816
Unrestricted	-
Commitments and Contingencies (note 10)	-
Total net assets	$ 27,969,816

See accompanying notes to the financial statements

LOWELL REGIONAL TRANSIT AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2011

Operating Revenues:	
Passenger fares	$ 1,135,973
Terminal revenues	1,101,666
Insurance recoveries	14,375
Other Income	250,532
Total operating revenues	2,502,546
Operating Expenses:	
Transit service (note 12)	7,496,128
Terminal expenses	907,687
Administrative and general	683,356
Professional services	52,824
Depreciation	2,553,143
Total operating expenses	11,693,138
Operating loss	(9,190,592)
Non-operating revenues (expense)	
Federal operating assistance	2,028,299
Commonwealth of Massachusetts contract assistance	2,609,224
Local Assessments	2,108,432
Interest income	11,553
Interest expense	(120,059)
Total non-operating revenues	6,637,449
Loss before capital grants	(2,553,143)
Capital Grants:	
Federal	1,980,821
Commonwealth of Massachusetts	312,500
Total capital grants	2,293,321
Change in net assets	(259,822)
Net assets, beginning of year	28,229,638
Net assets, end of year	$ 27,969,816

See accompanying notes to the financial statements

LOWELL REGIONAL TRANSIT AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:	
Passenger fares	$ 1,135,972
Terminal revenue	1,101,666
Other cash receipts	264,907
Payments to operators	(7,301,240)
Payments to other vendors	(1,292,590)
Payments to employees for services	(383,355)
Net cash used in operating activities	(6,474,640)
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	7,650,000
Principal paid on revenue anticipation notes	(7,500,000)
Interest paid on revenue anticipation notes	(100,921)
Operating and contract assistance	6,649,562
Net cash provided by non-capital financing activities	6,698,641
Cash flows from financing activities:	
Capital grants	2,344,480
Purchase of capital assets	(2,293,321)
Net cash used by capital and related financing activities	51,159
Cash flows from investing activities:	
Interest income	11,553
Invested in certificates of deposit	(546,132)
Net cash used by investing activities	(534,579)
Net increase in cash and cash equivalents	(259,419)
Cash and cash equivalents, beginning of year	1,036,998
Cash and cash equivalents, end of year	$ 777,579
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (9,190,592)
Adjustments:	
Depreciation	2,553,143
Changes in assets and liabilities	
Local assessment and other receivables	48,957
Prepaid items	(43,756)
Accounts payable	157,608
Net cash used in operating activities	$ (6,474,640)

See accompanying notes to the financial statements

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

The financial statements of the Lowell Regional Transit Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently. The more significant of the Authority's accounting policies are described below:

A. Reporting Entity

The Authority, a political subdivision of the Commonwealth of Massachusetts (the Commonwealth), was established in accordance with Chapter 161B of the Massachusetts General Laws to provide a public transit system for the territory comprised of the City of Lowell and the towns of Billerica, Chelmsford, Dracut, Dunstable, Tewksbury, Tyngsboro, Pepperell, Acton, Groton, Townsend, Westford, Maynard, and Carlisle. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (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.

B. Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets. The principal revenues of the Authority are fare box revenues received from patrons and terminal revenues from parking facilities. The Authority also recognizes as operating revenue the rental fees received from vendors from operating leases of Authority property. Operating expenses for the Authority include the costs of operating mass transit and demand responsive services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Budget

The Authority must establish an operating budget each year so that the amount will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, less (b) the aggregate of all revenue and transfers projected to be received by the Authority, including available surplus funds. The budget for all operations of the Authority is prepared by the Administrator and is acted upon by the Advisory Board. The budget is prepared on the accrual basis. Depreciation is not recognized as an expense, but capital outlays are recognized as expenses for budgetary control purposes. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized or covered by federal deposit insurance except as stated in Note 2. The carrying amount of the cash equivalents is fair value. For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

E. Compensated Absences

Employees of the Authority are allowed to accumulate sick leave up to 60 days. In the event of termination, there is no provision to compensate employees for unused sick time. Upon retirement, there is a provision for employees who retire or die in service to be paid up to a maximum of 30 days, 50% of the value of their unused sick time, at the time of their retirement or death. The amount recorded is the unused days earned at the current rate of pay, up to a maximum of 30 days.

F. Capital Assets

Capital assets are stated at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in condition for use.

G. Depreciation

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

Buildings	30 years
Vehicles	5-12 years
Passenger Shelters	5 years
Furniture, fixtures and equipment	5-7 years

A full month's depreciation is taken in the month an asset is placed in service. When property and equipment are disposed, depreciation is removed from the respective accounts, and the resulting gain or loss, if any, is recorded in operations.

H. 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

I. Concentration of Credit Risk

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

J. Investment Valuation

Investments are carried at fair value. Where applicable, fair values are based on quotations from national securities exchanges. The Authority invests in the Massachusetts Municipal Depository Trust, which is an external pool that is not SEC registered. This fund is regulated by the Commonwealth and is valued at current share price.

K. New Accounting Pronouncements

In fiscal 2011 the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 59, *Financial Instruments Omnibus*. The implementation of these standards did not have a material effect on the Authority's financial statements. The GASB has issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Omnibus*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires adoption subsequent to June 30, 2011 and is applicable to the Authority. The Authority has not yet adopted these statements; the implication on the fiscal practices and financial reports of the Authority are being evaluated.

Note 2. Cash and Cash Investments

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 agreements 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").

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial risk. As of June 30, 2011 $792,302 of the government's bank balance of $2,068,071 was exposed to custodial credit risk as uninsured and uncollateralized. The fair value of the MMDT investment was $742,230 and its average maturity was less than three months.

Note 3. Grants

Under various sections of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), 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 the Commonwealth's Executive Office of Transportation. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition the Federal government may fund up to 80% of the Authority's preventative maintenance and complementary ADA services costs, as defined.

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2011 was $2,609,224. The state operating contract assistance receivable, in the accompanying Statement of Net Assets, is inclusive of $609,289 related to funds due from the Commonwealth; this amount has not been funded. Unfunded deficits are generally funded via Commonwealth supplemental budgets and the Authority will pursue this avenue.

Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2011:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	$ 1,454,571	-	-	1,454,571
Construction in progress	1,498,500	2,183,656	-	3,682,156
Total capital assets not being depreciated	2,953,071	2,183,656	-	5,136,727
Other capital assets:				
Buildings and improvements	34,239,430	22,544	-	34,261,974
Transit equipment	14,633,226	26,516	200,113	14,459,629
Service equipment	983,936	34,470	-	1,018,406
Service vehicles	427,449	26,135	45,000	408,584
Office equipment	134,520	-	-	134,520
Bus shelters	75,228	-	-	75,228
Total other capital assets at historical cost	50,493,789	109,665	245,113	50,358,341
Less accumulated depreciation for:				
Buildings and improvements	18,760,328	1,194,088	-	19,954,416
Transit equipment	5,042,395	1,287,623	200,113	6,129,905
Service equipment	912,695	26,947	-	939,642
Service vehicles	308,817	40,522	45,000	304,339
Office equipment	117,759	3,963	-	121,722
Bus shelters	75,228	-	-	75,228
Total accumulated depreciation	25,217,222	2,553,143	245,113	27,525,252
Other capital assets, net	25,276,567	(2,443,478)	-	22,833,089
Total capital assets, net	$ 28,229,638	(259,822)	-	27,969,816

Note 5. Revenue Anticipation Notes

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

During the year ended June 30, 2011, the following changes occurred in the Authority's revenue anticipation notes (RANS):

Beginning balance	$ 7,500,000
New notes issued	7,650,000
Notes retired	(7,500,000)
Ending balance	$ 7,650,000

The $7,650,000 of RANS outstanding were issued on August 13, 2010, carried an interest rate of 1.7% and were due August 13, 2011. The Authority refinanced its Revenue Anticipation at a base of $7,720,000 at a rate of 1.50% with a due date of August 10, 2012. The Authority uses the proceeds of these notes to fund its mass transit operations.

Note 6. Pension Plan

A. Plan Description

The Authority contributes to the City of Lowell Retirement System (Retirement System), a cost-sharing multiple employer defined benefit pension plan administered by the City of Lowell Retirement Board. The Retirement System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan. The Retirement System issues a publicly available financial report, which can be obtained through the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission, One Ashburton Place, Boston, Massachusetts 02108.

B. Funding Policy

Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Authority is required to pay into the Retirement System its share of the systemwide actuarially determined contribution plus administration costs, which are apportioned among the employers, based on active covered payroll. The Commonwealth reimburses the Retirement System for a portion of benefit payments attributed to cost-of-living increases granted prior to July 1, 1998. Chapter 32 of the MGL governs the contributions of plan members and the Authority. The Authority's contribution to the Retirement System for the year ended June 30, 2011 was $87,972, which equaled its required contribution for the year.

The Authority also administers a deferred compensation plan through which employees can participate in a voluntary, payroll-deducted retirement program created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death approved or unforeseeable emergency. All amounts of compensation deferred, property purchased with those amounts, and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries.

Note 7. Other Postemployment Benefits

GASB No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

A. Plan Description

The Lowell Regional Transit Authority Healthcare Plan (LRTAHP) is a single-employer defined benefit healthcare plan administered by the Lowell Regional Transit Authority. LRTAHP provides medical benefits to eligible retirees and their spouses. Chapter 32B of the Massachusetts General Laws assigns the authority to establish and amend benefit provisions. The plan does not issue a separate report.

B. Benefits Provided

The Authority provides medical, prescription drug, and mental health/substance abuse to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

C. Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended by the state legislature. The required contribution is based on the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. The Authority began prefunding the plan in October, 2009.

D. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. Fiscal 2008 was the first year of the adoption of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to LRTAHP based on an actuarial valuation as of June 30, 2008:

Annual required contribution	$ 48,637
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	48,637
Contributions made	(30,291)
Increase in net OPEB obligation	18,346
Net OPEB obligation - beginning of year	31,831
Prior year funding	(31,831)
Net OPEB obligation - end of year	$ 18,346

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB cost contributed	Net OPEB obligation
2008	$ 65,280	100.0%	$ -
2009	69,593	100.0%	-
2010	46,456	100.0%	-
2011	46,837	61.0%	18,346

The Authority's net OPEB obligation as of June 30, 2011 is recorded as "other postemployment benefits" line item.

E. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was $955,012 and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $955,012. The covered payroll (annual payroll of active employees covered by the plan) was $379,348 and the ratio of the UAAL to the covered payroll was 251.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimated about the future. A schedule of funding progress will be presented when the plan has been in place for a sufficient number of years to allow it present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. In the July 1, 2008 actuarial valuation the projected unit credit method was used. The actuarial assumptions included a 3.5 percent investment return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of the short-term volatility in the market value of investments over a thirty year period. The UAAL is being amortized as a level percentage of projected payroll on an closed basis. The remaining amortization period at July 1, 2010 was twenty seven years.

Note 8. Risk Management

In conjunction with its normal operations, the Authority is exposed to various risks related to the damage or destruction of its assets from both natural and man-made occurrences, tort/liability claims, errors and omissions claims and professional liability claims. As a result of these exposures, the Authority has developed a comprehensive risk management program. There have been no significant reduction in coverage from the prior year and settlements have not exceeded insurance coverage for the current year or in any other year.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2011.

Note 9. Disaggregation of Receivable and Payable Balances

Receivables are primarily comprised of current intergovernmental receivables representing 96.8% of the balance at year end. The remaining current receivables are comprised of amounts due from vendors and auxiliary revenue sources. Payable balances are comprised of 62.8% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities.

Note 10. Commitments and Contingent Liabilities

A. Capital Investment Program

The Authority's capital investment continuing program for mass transportation development has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2011, capital projects costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources.

Funding Source	Approved project costs	Expenditures through June 30, 2011	Unexpended costs
Federal grants	$ 11,427,010	6,519,322	4,907,688
State and local sources	619,250	413,721	205,529
Total	$ 12,046,260	6,933,043	5,113,217

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA-LU). Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of the grants or require the refund of a significant amount of funds received under these grants.

B. Legal and Other

The Authority is a defendant in various litigations. Although the outcomes of these matters are not presently determinable, in the opinion of the Authority's management, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

The Authority has entered into a three year agreement for fixed route management and preventive maintenance services effective July 1, 2005. This agreement was extended for two years through June 30, 2010. A new contract with a different management company was entered into with a termination date of June 30, 2013. The Authority had also entered into a three year management agreement for the provision of its demand responsive services effective July 1, 2004. This contract was extended for another two years.

C. Fuel Hedges

The Authority has two hedges outstanding that will terminate on July 31, 2011. The aggregate notional amount for ultra low sulfur diesel was 126,000 gallons with a price of $2.699 per gallon. The other hedge was for 87 octane unleaded gasoline with an aggregate notional amount of 49,000 gallons at a cost of $2.588 per gallon.

Note 11. Net Assets – Investments in Capital Assets

This balance is represented by the amount invested in capital assets net of related debt. It is comprised of the following:

Cost of Capital Assets Acquired	$ 55,495,068
Less: Accumulated Depreciation	27,525,252
Less: Outstanding Debt Related to Capital Assets	-
	$ 27,969,816

Note 12. Transit Service

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property were performed by Lowell Transportation Management, Inc. under the terms of an agreement whereby Lowell Transportation Management, Inc. operated mass transit along such routes and according to such schedules as defined by the Authority. In return, the Authority agreed to pay Lowell Transportation Management, Inc. a management fee and to reimburse it for all costs and expenses which were reasonable and necessary for the efficient operation of the service.

The operation of the Authority's "road runner" bus service for the elderly, handicapped, and low-income persons is performed by Paratransit Management of Lowell, Inc. In return, the Authority agrees to pay Paratransit Management of Lowell, Inc. a management fee and to reimburse it for all costs and expenses which were reasonable and necessary for the efficient operation of the service. Paratransit Management of Lowell, Inc. is a subsidiary of First Transit, Inc.

The Authority enters into an annual contract with each of the Towns of Acton, Billerica, Chelmsford, Dracut, Groton, Maynard, Townsend, Tyngsboro, and Westford to provide paratransit services for the elderly, handicapped, and low-income persons who are unable to use the fixed route service. Service policies are defined by the Authority, which has agreed to reimburse for all reasonable and necessary expenses for the efficient operation of the paratransit service.

Note 13. Subsequent Events

Subsequent events have been evaluated through September 12, 2011, the date on which the financial statements were available to be issued.

LOWELL REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Budgetary Comparison Schedule

For the Year Ended June 30, 2011

Expense Description	Original Budget	Amended Budget	Actual Expenses	Variance (Over)/Under
Administration				
Personnel (1)	$ 549,098	549,098	581,575	(32,477)
Professional Services	68,500	68,500	52,824	15,676
Office and Administrative (2)	32,800	32,800	62,977	(30,177)
Advertising (3)	5,000	5,000	38,804	(33,804)
Debt Service - Interest	190,000	190,000	120,059	69,941
Transportation				
Fixed Route	5,985,904	5,903,904	5,920,376	(16,472)
Special Services	1,626,715	1,652,965	1,575,752	77,213
Terminal Expenses - Gallagher	580,800	580,800	576,840	3,960
Terminal Expenses - No. Billerica	227,385	227,385	330,847	(103,462)
Total Expenses	$ 9,266,202	$ 9,210,452	9,260,054	(49,602)

(1) Actual personnel costs were affected by the adoption of GASB 45 which added $48,637 to this line item.

(2) Administrative expenses include the write off of $20,455 in state assistance and $4,000 related to the settlement of a contamination issue.

(3) Advertising costs include $31,952 of bartered expenses not budgeted.

LOWELL REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Schedule of Net Cost of Service

For the Year Ended June 30, 2011

	Urbanized Area Service	Rural Area Service	Total Area Service
OPERATING COSTS			
LRTA administrative costs	$ 730,169	6,011	736,180
Purchased services			
Fixed route	5,870,056	50,320	5,920,376
Demand responsive	1,575,752	-	1,575,752
Terminal expense	907,687	-	907,687
Debt service - interest	120,059	-	120,059
Total operating costs	9,203,723	56,331	9,260,054
FEDERAL OPERATING ASSISTANCE			
FTA operating and administrative	2,020,526	7,773	2,028,299
Other federal	-	-	-
Total federal assistance	2,020,526	7,773	2,028,299
REVENUES			
Operating			
Farebox revenue	1,133,156	2,817	1,135,973
Other Revenue			
Advertising	120,704	-	120,704
Parking	1,101,666	-	1,101,666
Interest income	11,553	-	11,553
Miscellaneous	144,203	-	144,203
Total other revenue	1,378,126	-	1,378,126
NET OPERATING DEFICIT	4,671,915	45,741	4,717,656
ADJUSTMENTS			
Extraordinary expenses	-	-	-
NET COST OF SERVICE	4,671,915	45,741	4,717,656
NET COST OF SERVICE FUNDING			
Local assessments	2,090,244	18,188	2,108,432
State contract assistance to be funded	2,581,671	27,553	2,609,224
Less: partial payment made by EOTC after July 1st	2,451,970	26,793	2,478,763
Balance requested from the State	129,701	760	130,461
UNREIMBURSED DEFICIT	-	-	-

See accompanying independent auditors' report

LOWELL REGIONAL TRANSIT AUTHORITY
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Net Cost of Service-Calculation Worksheet and Supplemental Data

For the Year Ended June 30, 2011

Proof calculations and other required information:

A.	Prior year operating expenses, net of fully funded brokerage service	$ 8,954,458
	Allowable percentage increase:	2.50%
	Prior year, net operating expenses times 2.5%	223,861
	Current year, allowable net operating expenses	9,178,319
	Plus adjustments:	
	ADA expenses	630,301
	Brokerage funded costs	-
	New service costs	-
	Total allowable operating costs	9,808,620
B.	Amount of extraordinary expenses	-
	Prior year local assessment	1,808,678
	Percentage of extraordinary to prior local assessment	0.00%
C.	Aggregate amount of reserve account at June 30	-
	Prior year local assessment	1,808,678
	Percentage of reserve account to prior local assessment	0.00%
D.	State the management fee paid to major service providers as a percentage of operating costs incurred.	3.64%
E.	State the percentage of benefits paid by the RTA on behalf of RTA employees for:	
	Group life and accidental death insurance	0.00%
	Group health insurance	75.00%
F.	State the brokerage services contracts' costs as a percentage of total operating costs.	0.00%

LOWELL REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Schedule of Local Assessments

For the Year Ended June 30, 2011

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2010 as well as the audited amount for fiscal 2012.

	Fiscal 2010 Assessment	Fiscal 2011 Audited
Acton	$ 24,670	68,565
Billerica	205,836	251,616
Carlisle	-	25,747
Chelmsford	213,195	218,525
Dunstable	-	-
Dracut	62,152	63,706
Groton	46,964	72,587
Lowell	858,744	878,566
Maynard	68,268	69,975
Pepperell	15,293	15,675
Tewksbury	228,268	233,976
Townsend	12,594	38,659
Tyngsborough	25,677	26,319
Westford	65,205	144,516
Totals	$ 1,826,866	2,108,432