

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a component Unit of the Massachusetts Department of Transportation)

Basic Financial Statements, Supplementary Data  
June 30, 2018

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Table of Contents

Management's Discussion and Analysis	i – x
Independent Auditors' Report	1-3
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-24
Required Supplementary Information –	
Schedule of the Authority's Proportionate Share of the Net Pension Liability	25
Schedule of Pension Contributions	26
Schedule of Changes in Net OPEB Asset and Related Ratios	27
Schedule of OPEB Contributions	28
Schedule 1: Statement of Costs	29
Schedule 2: Statement of Costs – Calculation Worksheet and Supplementary Data	30
Schedule 3: Schedule of Local (Towns) Funding	31

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

The Reporting Entity

The management of the Martha's Vineyard Regional Transit Authority (the Authority) has generated this narrative overview and analysis to assist our readers in understanding the Authority's basic financial statements. The Authority was established as a political subdivision of the Commonwealth of Massachusetts on February 15, 1980, by the various towns constituting the Authority, pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth, for the purpose of continuing and improving local transit service. The communities that presently comprise the Authority are Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury and West Tisbury.

Overview of the Financial Statements

This overview and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. In addition to the basic financial statements, the report includes notes to the financial statements, required supplementary information pertaining to the pension and other postemployment benefit plans and certain schedules required by Commonwealth agencies.

The statement of net position reports assets plus deferred outflows of resources and liabilities plus deferred inflows of resources and reports the difference between the two as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position consists of three sections: invested in capital assets, restricted, and unrestricted. The invested in capital assets component of the net position consists of capital assets, net of related debt. The deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in the invested in capital assets component, if applicable. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position is unrestricted.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses, nonoperating revenues and expenses, and capital grants and contributions for the year. The net of these income and expense accounts results in the increase or decrease in net position. That change combined with the net position at the end of the previous year reconciles to the net position at the end of the current year.

The statement of cash flows reports cash and cash equivalents activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net results of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the year.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Condensed Financial Information

Statement of Net Position  
(000 omitted)

	2018	2017
Current assets	\$ 3,050	\$ 3,372
Capital assets, net	14,696	12,118
Restricted and noncurrent assets	5,371	3,105
Total assets	23,117	18,595
Deferred outflows of resources	93	88
Total assets and deferred outflows of resources	23,210	18,683
Restricted and noncurrent liabilities	5,763	3,836
Current liabilities	232	309
Total liabilities	5,995	4,145
Deferred inflows of resources	58	
Total liabilities and deferred inflows of resources	6,053	4,145
Net position		
Invested in capital assets	14,696	12,118
Restricted	547	440
Unrestricted	1,914	1,980
Total net position	\$ 17,157	\$ 14,538

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Condensed Financial Information (continued)

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

	<u>2018</u>	<u>2017</u>
Operating revenues		
Transportation services	\$ 1,903	\$ 1,917
Operating expenses		
Cost of transportation service, maintenance and administration	5,216	5,190
Depreciation	1,916	1,633
	<u>7,132</u>	<u>6,823</u>
Operating loss	<u>(5,229)</u>	<u>(4,906)</u>
Nonoperating revenues and (expenses)		
Operating assistance	3,364	3,324
Other nonoperating	(19)	(134)
	<u>3,345</u>	<u>3,190</u>
Loss before capital contribution	<u>(1,884)</u>	<u>(1,716)</u>
Capital contributions	<u>4,503</u>	<u>3,109</u>
Change in net position	2,619	1,393
Net position		
Beginning of year, as reported	14,538	12,792
Cumulative effect of change in accounting principle - OPEB		353
Beginning of year, as restated	<u>14,538</u>	<u>13,145</u>
End of year	<u>\$ 17,157</u>	<u>\$ 14,538</u>

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2018 and 2017

The assets of the Authority exceeded its liabilities at June 30, 2018 by \$17,157,000 after restating the 2017 net OPEB asset for the cumulative effect of a change in an accounting principle of \$353,000.

Total current assets decreased in 2018 versus 2017 by \$322,000 (9.5%). This was caused primarily by decreases in cash, receivable for operating assistance and inventory.

Total net capital assets increased in 2018 versus 2017 by \$2,578,000 (21.3%). This was caused by capital acquisitions of \$4,503,000 less removals and depreciation. These acquisitions were funded by Federal and State capital grants.

The restricted and noncurrent assets increased in 2018 versus 2017 by \$2,266,000 (73.0%). This was caused by increases in receivable for capital assistance of \$2,137,000, restricted cash and cash equivalents of \$27,000 and receivable for operating assistance of \$106,000, less a decrease in the net OPEB asset of \$4,000.

The deferred outflows of resources related to pensions and OPEB had an increase of \$5,000 (5.7%) in 2018 versus 2017.

The Authority's total assets increased in 2018 versus 2017 by \$4,522,000 (24.3%).

Total liabilities increased by \$1,850,000 (44.6%). This was caused by increases in accounts payable related to capital expenditures of \$2,057,000, less decreases in accounts payable and accrued expense related to operations of \$77,000, OPEB liability of \$39,000, net pension liability of \$87,000 and revenue anticipation note of \$4,000.

The Authority's net position increased by \$2,619,000 (18.0%) during the current year after restating fiscal year 2017's net position by \$353,000. The increase was the result of an increase in regular income and expenses of \$2,619,000. The restating of fiscal year 2017 was the result of recording the cumulative effect of a change in an accounting principle, related to the implementation of GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions and GASB No. 85, Omnibus.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Revenues

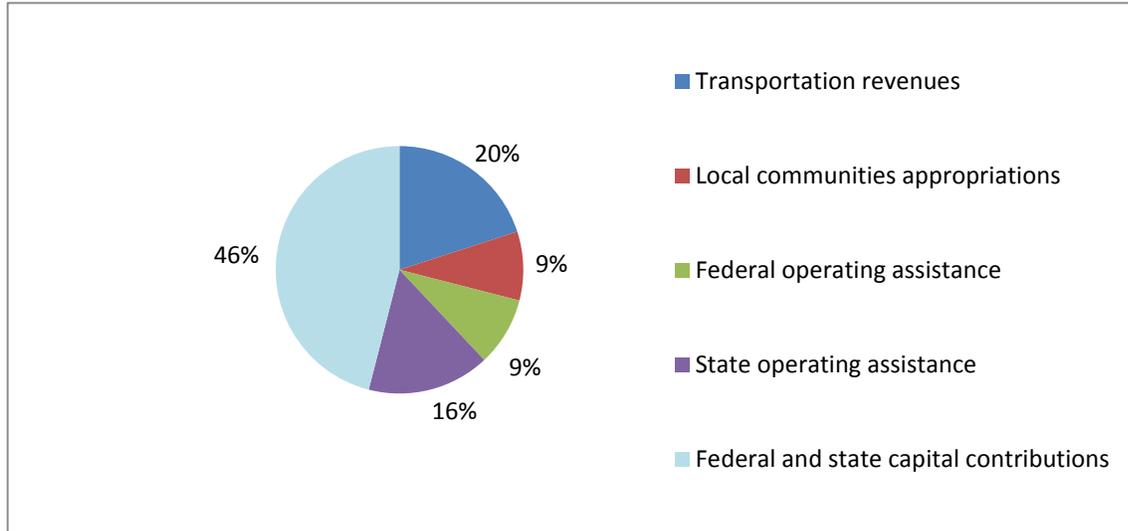
Total operating revenue decreased in 2018 versus 2017 by \$14,000 (0.7%).

Nonoperating revenue increased in 2018 versus 2017 by \$155,000 (4.9%).

Total capital contributions increased in 2018 versus 2017 by \$1,394,000 (44.8%). This was caused primarily by increases in Federal and State capital grant funding.

The change in net position increased in 2018 versus 2017 by \$1,226,000 (88.0%). This was caused by increases in revenue (capital contributions of \$1,394,000 and nonoperating revenues of \$155,000), less decreases in operating revenues of \$14,000 and change in operating expenses of \$309,000.

**Revenues by source:**



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Operating Expenses

Total operating expenses increased in 2018 versus 2017 by \$309,000 (4.5%).

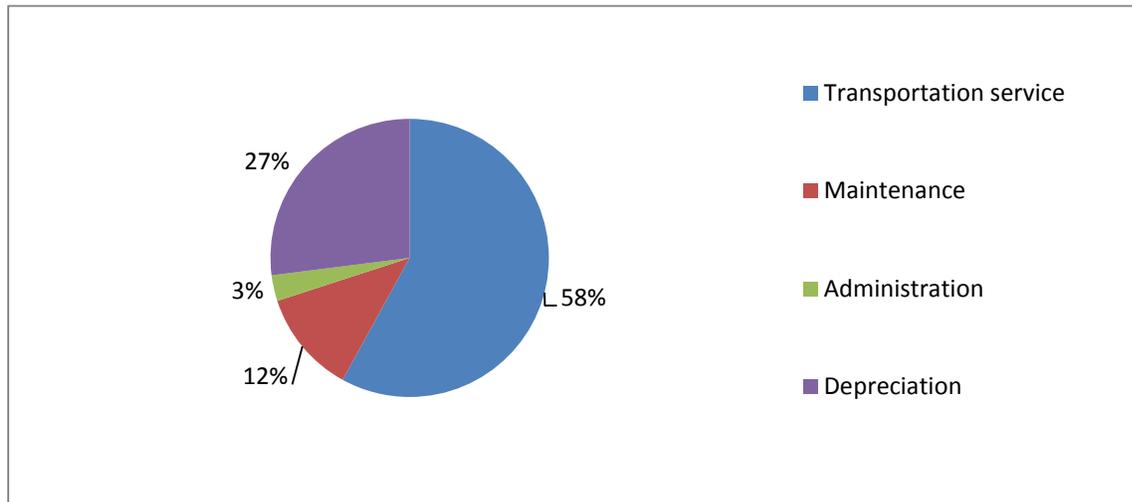
The cost of transportation service decreased in 2018 versus 2017 by \$7,000 (0.2%).

Maintenance expense and administrative expense increased in 2018 versus 2017 by \$33,000 (3.3%).

Depreciation expense increased in 2018 versus 2017 by \$283,000 (17.3%). This was primarily attributable to the addition of a full years' depreciation on 2017 acquisitions and half years' depreciation on 2018 acquisitions, less removals.

The Authority's operating loss increased in 2018 versus 2017 by \$323,000 (6.6%).

**Expenses by source:**



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2017 and 2016

The assets of the Authority exceeded its liabilities at June 30, 2017 by \$14,538,000 after restating the net OPEB asset for the cumulative effect of a change in an accounting principle of \$353,000.

Total current assets decreased in 2017 versus 2016 by \$158,000 (4.5%). This was caused primarily by a decrease in prepaid fuel hedge and an increase in inventory.

Total net capital assets increased in 2017 versus 2016 by \$1,339,000 (12.4%). This was caused by capital acquisitions of \$3,109,000 less removals and depreciation. These acquisitions were funded by Federal and State capital grants.

The restricted and noncurrent assets increased in 2017 versus 2016 by \$761,000 (32.5%). This was caused by increases in receivable for capital assistance of \$436,000, restricted cash and cash equivalents of \$26,000 and net OPEB asset of \$353,000, less a decrease in receivable for operating assistance of \$54,000.

The deferred outflows of resources related to pensions increased by \$42,000 (91.3%).

The Authority's total assets increased in 2017 versus 2016 by \$1,942,000 (11.7%).

Total debt increased by \$238,000 (6.1%). This was caused by increases in accounts payable related to operations of \$102,000, accounts payable related to capital expenditures of \$304,000, net pension liability of \$46,000 and revenue anticipation note of \$4,000, less a decrease in the liability for other postemployment benefits of \$218,000.

The Authority's net position increased by \$1,746,000 (13.6%) during 2017. This was caused by operating revenues of \$1,917,000 plus nonoperating revenue of \$3,190,000 and capital contributions of \$3,109,000 and the cumulative effect of a change in an accounting principle of \$353,000, less operating expenses of \$6,823,000.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Revenues

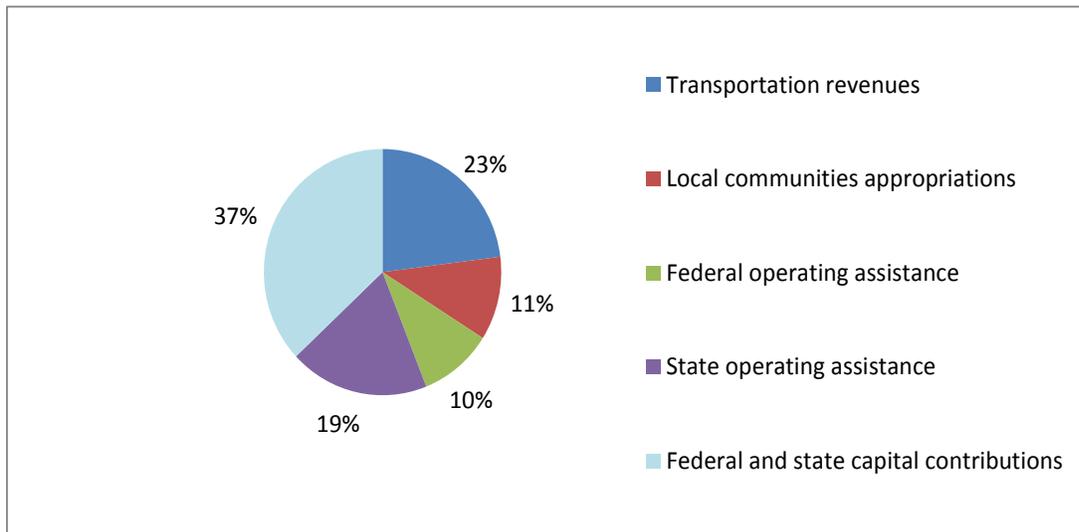
Total operating revenue increased in 2017 versus 2016 by \$23,000 (1.2%). This was primarily caused by increases in ridership.

Nonoperating revenue increased in 2017 versus 2016 by \$118,000 (3.8%).

Total capital contributions increased in 2017 versus 2016 by \$964,000 (44.9%). This was caused primarily by increases in Federal and State capital grant funding.

The change in net position increased in 2017 versus 2016 by \$746,000 (115.3%). This was caused by increases in revenue (capital contributions of \$964,000, nonoperating revenues of \$118,000 and operating revenues of \$23,000), less operating expenses of \$359,000.

Revenues by source:



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Operating Expenses

Total operating expenses increased in 2017 versus 2016 by \$359,000 (5.6%).

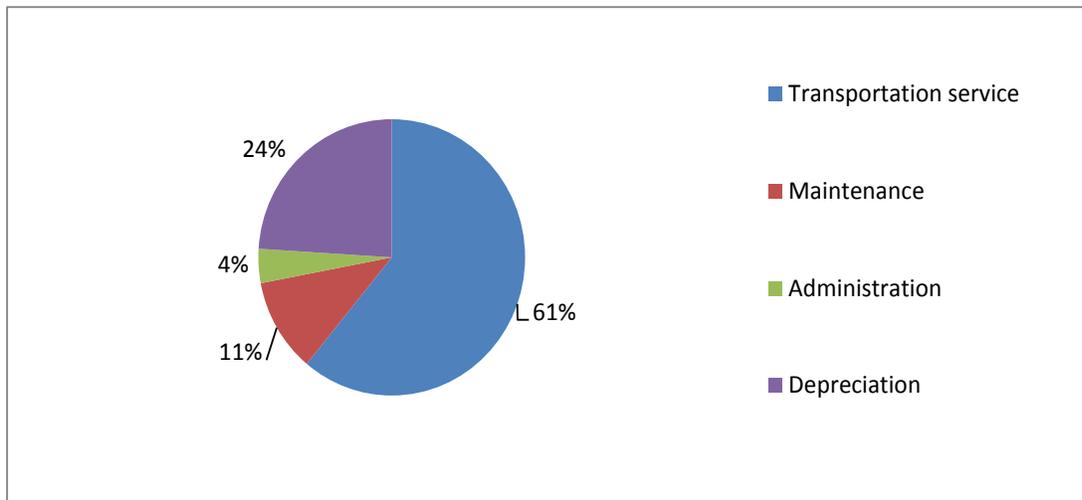
The cost of transportation service increased in 2017 versus 2016 by \$200,000 (5.0%). This was caused primarily by an increase in service provided.

Maintenance expense and administrative expense decreased in 2017 versus 2016 by \$55,000 (5.15%).

Depreciation expense increased in 2017 versus 2016 by \$214,000 (15.1%). This was primarily attributable to the addition of a full years' depreciation on 2016 acquisitions and half years' depreciation on 2017 acquisitions, less removals.

The Authority's operating loss increased in 2017 versus 2016 by \$336,000 (7.4%).

**Expenses by source:**



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2018

Capital Assets

The Authority's capital assets as of June 30, 2018, amounted to \$14,696,000, net of accumulated depreciation. The Authority's investment in capital assets includes buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2018, the Authority invested \$4,503,000 in various capital assets. Capital asset additions were funded through Federal and State capital grants. During the current year, the most significant capital asset event was the acquisition of vehicles and related equipment of \$4,066,000.

More detailed information regarding the Authority's capital asset activities for 2018 can be found in the notes to the financial statements (Note 7).

Revenue Anticipation Note

The Authority had a revenue anticipation note, inclusive of premium, of \$1,500,000 and \$1,504,000 at the end of 2018 and 2017, respectively.

Economic Factors

Funding for the Authority's net cost of service (noncapital expenses less all noncapital revenues except state contract assistance and member municipality assessments) is dependent primarily, 63%, from operating assistance from the Commonwealth and 37% by assessments to the member communities.

Demand for the Authority's services is mainly affected by the overall economic activity on Martha's Vineyard, both seasonally and year-round. The economic activity is a reflection of the overall construction on the island and other factors, such as weather-related conditions, capacity constraints, and operational limitations, which can also have an impact on the Authority's annual ridership volumes.

The Authority's operating revenue for the past three years was:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Farebox revenue	\$1,737,000	\$1,752,000	\$1,701,000
Other revenue	157,000	165,000	202,000

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional information, contact Angela Grant, Administrator, Martha's Vineyard Regional Transit Authority, 11 A Street, Edgartown, MA 02539.

# Bruce D. Norling, CPA, P.C.

## INDEPENDENT AUDITORS' REPORT

The Advisory Board  
Martha's Vineyard Regional Transit Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Martha's Vineyard Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

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, 2018, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through x and the required supplementary information schedules on pages 25 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, included in the accompanying schedules on pages 29 through 31, is presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplementary schedules have not been subjected to the auditing procedures

applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Bruce D. Norling, CPA, P.C.*

October 12, 2018

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position  
June 30, 2018

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 645,431
Receivable for operating assistance	1,869,833
Other current assets	534,830
Total current assets	<u>3,050,094</u>
Restricted and noncurrent assets	
Restricted assets	
Cash and cash equivalents	221,136
Receivable for capital assistance	4,361,861
Total restricted assets	<u>4,582,997</u>
Receivable for operating assistance	438,784
Capital assets, net	14,696,379
Net OPEB asset	348,950
Total restricted and noncurrent assets	<u>20,067,110</u>
Total assets	<u>23,117,204</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pension	53,888
Deferred outflows of resources related to OPEB	39,104
	<u>92,992</u>
Total assets and deferred outflows of resources	<u><u>23,210,196</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	231,670
Total current liabilities	<u>231,670</u>
Restricted and noncurrent liabilities	
Liabilities payable from restricted assets	
Accounts payable and accrued expense	4,036,516
Total liabilities payable from restricted assets	<u>4,036,516</u>
Other postemployment benefits	
Net pension liability	226,827
Revenue anticipation notes	1,500,284
Total restricted and noncurrent liabilities	<u>5,763,627</u>
Total liabilities	<u>5,995,297</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pension	58,003
Total liabilities and deferred inflows of resources	<u>6,053,300</u>
NET POSITION	
Invested in capital assets	14,696,379
Restricted	546,481
Unrestricted	1,914,036
Total net position	<u>\$ 17,156,896</u>

See accompanying notes to financial statements

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018

Operating revenues		
Transportation services	\$	1,903,329
Operating expenses		
Cost of transportation service		4,170,405
Maintenance		840,498
General and administration		205,652
		<u>5,216,555</u>
Depreciation		1,915,831
		<u>7,132,386</u>
Operating loss		(5,229,057)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal		895,569
Commonwealth of Massachusetts		1,554,595
Local		913,966
Loss on disposal of capital assets		(8,581)
Interest expense		(10,685)
		<u>3,344,864</u>
Loss before capital contributions		(1,884,193)
Capital grants and contributions		4,503,651
		<u>4,503,651</u>
Change in net position		2,619,458
Net position		
Beginning of year, as reported		14,184,559
Cumulative effect of change in accounting principle - OPEB		352,879
		<u>14,537,438</u>
Beginning of year, as restated		14,537,438
End of year	\$	<u><u>17,156,896</u></u>

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from customers	\$ 1,910,054
Payments to vendors and suppliers	(4,418,271)
Payments to employees	(737,805)
Payments of fringe	<u>(174,961)</u>
Net cash used in operations	<u>(3,420,983)</u>
Cash flows from noncapital financing activities	
Proceeds from revenue anticipation notes	1,500,329
Repayment of revenue anticipation notes	(1,500,000)
Operating assistance grants	3,285,692
Interest on notes	<u>(22,437)</u>
Net cash provided by noncapital financing activities	<u>3,263,584</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(2,445,252)
Capital contributions	
Federal Transit Administration	370,868
Commonwealth of Massachusetts	1,995,606
Proceeds from sale of capital assets	<u></u>
Net cash used in capital and related financing activities	<u>(78,778)</u>
Cash flows from investing activities	
Interest income	<u>8,770</u>
Net cash provided by investing activities	<u>8,770</u>
Net decrease in cash and cash equivalents	(227,407)
Cash and cash equivalents at beginning of year	<u>1,093,974</u>
Cash and cash equivalents at end of year	<u>\$ 866,567</u>

Reconciliation of operating loss to net cash provided by operations	
Operating loss	\$ (5,229,057)
Adjustments to reconcile the operating loss to net cash used in operating activities:	
Depreciation expense	1,915,831
Post employment healthcare credit	(35,175)
Pension expense	4,766
Changes in assets and liabilities:	
Receivables, net	6,725
Prepaid fuel hedge	
Other assets	33,433
Accounts payable and accrued expense	<u>(117,506)</u>
Net cash used in operations	<u>\$ (3,420,983)</u>

Supplemental disclosures of noncash transactions	
Increase in accounts payable related to capital expenditures	\$ 2,057,399

See accompanying notes to financial statements

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

1. The Reporting Entity

The Martha's Vineyard Regional Transit Authority (the Authority) is a component unit of the Massachusetts Department of Transportation (MassDOT) and MassDOT is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The Authority was established as a political subdivision of the Commonwealth on February 15, 1980, by the various towns constituting the Authority, pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth, for the purpose of continuing and improving local transit service. The communities that presently comprise the Authority are Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury and West Tisbury. The Authority does not have any stockholders or equity holders.

The Authority is managed by an Administrator appointed by an Advisory Board. The Advisory Board is made up of appointed representatives from the member communities. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from federal and state governments and the member communities. In addition, the Authority receives federal and state capital grants that are used to finance acquisitions and improvements of facilities and equipment.

The operation of the Authority was performed by Transit Connection, Incorporated (the Operator). The Operator functions under terms and agreements whereby it provides mass transit along such routes and according to such schedules as may be defined by the Authority. The current agreement terminates January 31, 2019. The contract may be terminated by either party with ninety days notice.

The Authority also has a brokerage service program, whereby, the Authority contracts with various social service agencies to provide public transportation to their clients. The operation of this program is also provided by the Operator.

2. Summary of Significant Accounting Policies

a) Measurement Focus, Basis of Accounting and Financial Reporting Presentation – The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose government, engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation services are provided. Unearned revenue represents cash received in advance of future services.

The Authority distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue is passenger fares. Operating expenses include the cost of transit services, provided by a third party vendor, maintenance, administrative and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements – In June 2015, the GASB issued GASB Statement No. 75, *Accounting for and Financial Reporting for Post-employment Benefits Other than PENSIONS*. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The adoption of this standard had the following effect on the Authority's financial statements: (1) the recording of a net OPEB asset of \$348,950, OPEB expense of \$3,929 and deferred outflows of resources related to OPEB of \$39,104. Further, the beginning net position had to be restated (i.e., increased) in the amount of \$352,879. (2) the Authority also implemented significant new note disclosures and new required supplementary information.

In March 2016, the GASB issued GASB No. 82, *Pension Issues – An Amendment to GASB statements No. 67, No. 68 and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standard of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement No. 67, Statement No. 68, or Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The adoption of this standard did not have a material impact on the Authority's financial statements.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements (continued)

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The adoption of the standard did not have a material impact on the Authority’s financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2018 and may be applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority’s fiscal practices and financial reports is being evaluated.

Statement No.	Adoption Required in Fiscal Year
83 <i>Certain Asset Retirement Obligations</i>	2019
84 <i>Fiduciary Activities</i>	2019
87 <i>Leases</i>	2020
88 <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019

c) Capital Grants – The Authority receives capital grants from various governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation facilities and equipment. Capital grants are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

d) Statement of Cash Flows – 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) Restricted Assets and Restricted Liabilities – Restricted assets are restricted for the acquisition of capital assets, the stabilization fund and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

f) Capital Assets – Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the assets. The Authority's capitalization policy is to capitalize all assets acquired with capital funds regardless of the dollar amount. The estimated service lives are as follows:

	Years
Building and structures	15 – 40
Vehicles	5 – 12
Equipment	5 – 7
Intangible assets	5

g) Net Position - Net position is the residual of all other elements presented in a statement of net position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position is reported in three categories and these are defined as follows: (1) amounts invested in capital assets consists of capital assets, net of accumulated depreciation and is reduced by the related debt that is attributed to the acquisition, construction, or improvement of those assets, (2) restricted net position results when constraints are placed on net position use, and are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation. (3) Unrestricted net position consists of net position that does not meet the definition of the two preceding categories.

h) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

i) Restricted Cash and Investment Accounts – Certain cash and investments are segregated from operating cash due to certain internal or external restrictions as follows:

- Stabilization and contingency reserve accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent internally restricted funds held for capital acquisitions and other expenses.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

2. Summary of Significant Accounting Policies (continued)

j) Postemployment Benefits Other than Pensions (OPEB) – For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Dukes County Other Post-Employment Benefits Trust Fund (the Trust) and additions to/deductions from the Trust's fiduciary net position have been determined on the basis they are reported by the Trust. For this purpose, the Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k) Available Unrestricted Resources – The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

l) Reclassifications – Certain prior year amounts have been reclassified to conform to current year presentation.

m) Pensions – For purposes of measuring the Authority's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Dukes County Contributory Retirement System (DCRS) and additions to/deductions from the DCRS's fiduciary net position have been determined on the same basis as they are reported by DCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

n) Deferred Outflows/Inflows of Resources - The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2018, the Authority has reported deferred outflows that are related to its pension and OPEB plans and (2) deferred inflows related to its pension plan.

3. Cash and Cash Equivalents

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 its agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Custodial credit risk exists for cash deposits when, in the event of the failure of a depository financial institution, the Authority's deposits will not be recovered. The Authority does not have a formal policy with regard to custodial credit risk, but generally invests its funds in deposits that are fully FDIC insured or collateralized with securities held by the pledging financial institution's trust department in the financial institution's name. At June 30, 2018, the Authority does not have any uninsured or uncollateralized bank deposits.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

3. Cash and Cash Equivalents (continued)

Cash and cash equivalents reported in the accompanying statement of net position as of June 30, 2018, are as follows:

Current assets - cash and cash equivalents	\$ 645,431
Noncurrents assets - restricted funds	221,136
Total	\$ 866,567

4. Grants

The Federal government provides both operating and capital funding pursuant to the various sections of the Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) Act, of 2012 and the Fixing America's Surface Transportation Act (FAST), of 2015. Further, the Commonwealth of Massachusetts (MassDOT) and the member communities provide the local share of both operating and capital funding.

5. Receivable for Operating and Capital Assistance

The receivable for operating and capital assistance is made up the following:

Current

<u>Operating assistance</u>	
United States Department of Transportation - Pass-through grants through the Commonwealth Operating grants Formula Grants for Rural Areas	\$ 895,569
Local operating assistance to be billed to the Towns constituting the Authority and paid by the Commonwealth to the Authority	1,313,517
Other accounts receivable	99,531
Total operating assistance	2,308,617
Less noncurrent portion	(438,784)
Total current operating assistance	\$ 1,869,833

Noncurrent

<u>Capital assistance</u>	
Commonwealth of Massachusetts	\$ 4,299,827
United States Department of Transportation	62,034
Total capital assistance	\$ 4,361,861

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

6. Other Current Assets

The other current asset balance includes a motor vehicle parts and fuel inventory of approximately \$507,000. This inventory is stated at the lower of cost or market on a first-in, first-out basis.

7. Capital Assets and Depreciation

The capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Common carrier rights	\$ 1,620,000	\$ -	\$ -	\$ 1,620,000
Subtotal	<u>1,620,000</u>	<u>-</u>	<u>-</u>	<u>1,620,000</u>
Depreciable capital assets				
Building and structures	4,852,332	239,592		5,091,924
Vehicles	12,992,889	4,066,115	734,208	16,324,796
Equipment	1,044,446	49,477	29,000	1,064,923
Intangible assets	253,231	147,466		400,697
Subtotal	<u>19,142,898</u>	<u>4,502,650</u>	<u>763,208</u>	<u>22,882,340</u>
Accumulated depreciation	<u>8,644,757</u>	<u>1,915,831</u>	<u>754,627</u>	<u>9,805,961</u>
Net depreciable assets	<u>10,498,141</u>	<u>2,586,819</u>	<u>8,581</u>	<u>13,076,379</u>
Net capital assets	<u>\$ 12,118,141</u>	<u>\$ 2,586,819</u>	<u>\$ 8,581</u>	<u>\$ 14,696,379</u>

Depreciation expense for the year was \$1,915,831.

8. Revenue Anticipation Notes

During the current year, the following changes occurred in the Authority's revenue anticipation notes (RANs):

Beginning balance	\$ 1,504,027
New notes issued	1,500,329
Notes retired	<u>(1,504,072)</u>
Ending balance	<u>\$ 1,500,284</u>

The RAN outstanding at June 30, 2018, has an interest rate of 2.00% (effective interest rate is 1.98% after accounting for premium), and is due in May, 2019. The above balance is inclusive of an unamortized premium of \$284.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

8. Revenue Anticipation Notes (continued)

All required payments with respect to this obligation are guaranteed by the Commonwealth of Massachusetts. The guarantee is for the entire duration of the note. Further, in the history of the Authority, the Commonwealth has never had to pay anything with respect to the Authority's RANs.

The RAN is expected to be refinanced upon maturity with generally the same terms as the note currently outstanding. Therefore, it is short-term debt expected to be refinanced and is thus classified as long-term debt.

9. Restricted Net Position

Restricted net position is comprised of the total restricted net assets less liabilities payable from restricted net assets. The following delineates the expendable versus nonexpendable restricted net position

Expendable		
Restricted by enabling legislation		
Stabilization Fund		\$ 117,685
Reserve for extraordinary expense		103,451
Capital asset acquisitions		325,345
		<u>\$ 546,481</u>

10. Leases

Operating lease

The Authority leases land from the Martha's Vineyard Airport Commission under a long-term, non-cancellable, operating lease. The lease commenced April 1, 2000 and terminates March 31, 2020. The agreement provides for annual rent increases tied to the consumer price index and an option to renew exists for an additional 20 years.

The future minimum lease payments, net of related minimum sublease income, are as follows:

<u>Year</u>	<u>Minimum Lease Payments</u>	<u>Minimum Sublease Income</u>	<u>Net Lease Payments</u>
2020	71,021	29,006	42,015
2021	53,266	7,287	45,979
	<u>\$ 124,287</u>	<u>\$ 36,293</u>	<u>\$ 87,994</u>

Aggregate rental expense for the year was \$69,174.

The Martha's Vineyard Airport Commission is a political subdivision of the Commonwealth of Massachusetts. Therefore, it is a related party to the Authority.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits

Pension Plan

General Information about the Pension Plan

*Plan Description* – The Authority provides employees retirement benefits through the Dukes County Contributory Retirement System (DCRS). The Plan is a cost-sharing, multiple-employer, contributory, defined benefit pension plan. The Plan is a member of the Massachusetts Contributory Retirement System and is governed by Massachusetts General Laws, Chapter 32. Oversight of the DCRS is provided by a five person Board of Retirement. The Plan issues a publicly available financial report that may be obtained by contacting the Plan located at 8 Airport Road, Suite 1, Vineyard Haven, MA 02568.

*Benefits Provided* – The Plan covers all eligible employees and provides retirement, disability, cost of living adjustments and death benefits to all Plan members and beneficiaries. The Plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

*Contributions* – Pursuant to Massachusetts General Laws, Chapter 32, contribution requirements of the active employees and the participating employers are established and may be amended by the Massachusetts Contributory Retirement System. Plan members are required to pay into the Plan 5% and 11% of their covered compensation, depending on plan entry date. The Authority's statutorily required contribution rate for the year ended June 30, 2018, was 5.47% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$36,922 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Authority reported a liability of \$226,827 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Update procedures were used to roll forward the total pension liability to December 31, 2017. The Authority's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the Authority's proportion of net pension liability was .684 percent.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

For the year ended June 30, 2018, the Authority recognized pension expense of \$41,588 and reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,400	\$ -
Net difference between projected and actual investment earnings on pension plan investments		52,961
Changes in assumptions	27,728	
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,760	5,042
Total deferred outflows and inflows of resources	\$ 53,888	\$ 58,003

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	
2019	6,250
2020	(2,594)
2021	(7,121)
2022	(610)
Thereafter	(40)

*Actuarial Assumptions* – The total pension liability in the January 1, 2016 actuarial valuation and the related update to December 31, 2017 (the measurement date), were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost method
Amortization method	
UAAL	Increasing dollar amount at 4.5% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2030. The annual increase in appropriation is further limited to 5% per year for FY 2018 and 2019 and 5.32% for FY 2020 and beyond.
2002 & 2003 ERI's	Increasing dollar amount to reduce the unfunded actuarial accrued liability attributable to the ERI's to zero on or before June 30, 2028.
Remaining amortization period	13 years for UAL as of December 31, 2017 11 years for the 2002 and 2003 ERI's as of December 31, 2017.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions (continued)

Asset valuation method	The market value of assets as of the valuation date reduced by the sum of 80% of gains and losses of the prior year, 60% of gains and losses of the second prior year, 40% of gains and losses of the third prior year and 20% of gains and losses of the fourth prior year.
	Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value.
Inflation	3%
Projected salary increases	6% to 4.25%
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation
Cost of living adjustments	Cost of living adjustments of 3.0 percent of the first \$14,000 of the annual retirement allowance are provided at the discretion of the System's Retirement Board.
Payroll growth	4% per year
Rates of retirement and disability	Varies based upon age
Mortality rates	Mortality rates were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvements using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	40.00%	6.00%
International equity	15.00%	4.90%
Alternatives - Private equity	5.00%	10.40%
Hedge funds	2.50%	1.60%
Real estate	10.00%	6.60%
Timber	2.50%	3.70%
Fixed income	25.00%	2.00%
Total	100.00%	

*Discount rate* – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

*Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate* – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75 %)</u>	Discount Rate <u>(7.75 %)</u>	1% Increase <u>(8.75 %)</u>
Authority's proportionate share of the net pension liability	\$ 376,613	\$ 226,827	\$ 100,178

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued DCRS financial report.

Post Employment Healthcare Benefits

*Plan Description* – The Authority has established a Retiree Healthcare Plan (HC Plan) and participates in an agent multiple-employer defined benefit retiree healthcare plan. The HC Plan offers benefits to eligible employees (1) hired before April 2, 2012, who render at least 10 years of service and attain age 55, while in service, or 20 years of service at any age, until the employee is eligible for Medicare and (2) hired on or after April 2, 2012, who render at least 10 years of service are eligible at age 60, while in service, until the employee is eligible for Medicare. The benefits, benefit level, employee contributions and employer contributions are governed by the Authority. As of July 1, 2016, the actuarial valuation date, approximately 10 active employees and no retirees meet eligibility requirements. The HC Plan is administered by the Dukes County Pooled Other Post-Employment Benefits Trust (the Trust).

*Benefits Provided* – Medical coverage, excluding dental, under the group health insurance plan for regular full-time employees will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pays 25% of the enrollment cost as established annually by the HC Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pays 100% of the enrollment costs as established annually by the HC Plan administrator. The retired employee must pay 25% of the enrollment cost (the working rate) as established annually by the HC Plan administrator. The Authority contributes the remainder of the health plan costs on a fully funded basis.

*Contributions* – Contributions to the Trust are voluntary and determined by the Authority. For the year ended June 30, 2018, the Authority made contributions of \$39,104.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Net OPEB Asset

The Authority's net OPEB asset was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of July 1, 2016.

*Actuarial Assumptions* – The total OPEB asset in the July 1, 2016 actuarial valuation and the related update to June 30, 2017 (the measurement date), were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost method
Amortization method	Increasing at 4.5% over 30 years on an open amortization period
Amortization period	30 years
Asset valuation method	Market value
Inflation	3%
Healthcare cost trend rates	8% initial, decreasing 1 percent per year to an ultimate rate of 5%
Investment rate of return	7.5%, net of OPEB plan investment expense, including Inflation
Pre-Retirement Mortality - General employees	RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using scale BB
Post-Retirement Mortality – General employees	RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period of July1, 2015 through June 30, 2016.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equities	54.00%	9.00%
US Governments & agencies	20.00%	1.03%
Fixed income	25.00%	3.61%
Cash & equivalents	1.00%	0.00%
Total	100.00%	

*Discount rate*— The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Changes in the Net OPEB Liability/Asset

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balance at 6/30/2016 (valuation date)	\$ 277,841	\$ 326,614	\$ (48,773)
Charges for the year:			-
Service Cost	25,786		25,786
Interest	22,748		22,748
Differences between expected and actual experience	-		-
Contributions		294,917	(294,917)
Net investment income		18,619	(18,619)
Benefit payments	(635)	(635)	-
Administrative expense			-
Net changes	47,899	312,901	(265,002)
Balance at 6/30/2017 (measurement date)	\$ 325,740	\$ 639,515	\$ (313,775)

*Sensitivity of the net OPEB liability to changes in the discount rate* - The following presents the net OPEB asset of the Authority if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Net OPEB Asset	\$ (243,629)	\$ (313,775)	\$ (368,623)

*Sensitivity of the net OPEB asset to changes in the healthcare cost trend rates* - The following presents the net OPEB asset calculated using the current healthcare cost trend rates that are 1-percentage-point lower (7% year 1 decreasing to 4%) or 1-percentage-point higher (9% year 1 decreasing to 6%) than the current healthcare cost trend rates for measurement period ended June 30, 2017:

	Healthcare Cost Trend		
	1% Decrease 7% Year 1 Decreasing to 4%	Rates 8% Year 1 Decreasing to 5%	1% Increase 9% Year 1 Increasing to 6%
Net OPEB Asset	\$ (383,108)	\$ (313,775)	\$ (213,047)

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$3,929. The Authority also reported \$39,104 of deferred outflows related to contributions subsequent to the June 30, 2017 measurement date. These will be recognized as an increase in the net OPEB asset during fiscal year ended June 30, 2019.

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Trust report. A copy of the report may be obtained by contacting the Trustee Chair, 9 Airport Road, Suite 1, Vineyard Haven, MA 02568.

12. Commitments and Contingencies

- a) Litigation – In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.
- b) Federal and State Grants - The Authority has received capital and operating financial assistance from Federal and State agencies in the form of grants. Expenditure of funds under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.
- c) Risk management – The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers compensation claims. The Authority carries commercial insurance to cover these potential losses. Settlements have not exceeded coverage for each of the past three fiscal years.

The Authority's workers compensation coverage is insured under a retrospectively rated policy. In the opinion of management, any audit adjustment made by the insurance carrier will not be material to the accompanying financial statements.

- d) Purchase commitments – As of June 30, 2018, the Authority had a commitment to purchase a transit bus for \$729,419. Management expects delivery of these vehicles in fiscal year 2019.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2018

13. Reserve for Extraordinary Expense

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 in an amount not to exceed three percent of the prior year's local assessment. Any balance in the reserve account at the end of the fiscal year may be carried forward into the next fiscal year; provided, however, that the aggregate amount in the account does not exceed twenty percent of the prior year's local assessment. In 2018, the Authority increased the reserve by \$26,750. The aggregate reserve at June 30, 2018 was \$103,451 and represents 11.60% of the applicable local assessment.

The reserve for extraordinary expense is included in the accompanying statement of net position in the net position category, restricted account.

14. Subsequent Events

The Authority evaluated subsequent events through October 5, 2018, when the financial statements were available to be issued.

15. Compensation Disclosures (unaudited)

The Massachusetts Executive Office of Administration and Finance, pursuant to Massachusetts General Law 810 CMR 53.03(2) requires the following compensation disclosures.

The Administrator's (CEO) base salary for fiscal year 2018 was \$135,200. In addition, the CEO is in a (1) health insurance plan contributing 25% of the premium, and (2) a pension plan contributing 11% of regular salary.

The Deputy Administrator's (DA) base salary for fiscal year 2018 was \$93,730. In addition, the DA is in a (1) health insurance plan contributing 25% of the premium, and (2) a pension plan contributing 11% of regular salary.

Advisory Board members and officers do not receive compensation.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information  
Schedule of the Authority's Proportionate Share of the Net Pension Liability (Unaudited)  
June 30, 2018

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
Authority's proportion of the net pension liability	0.684%		0.684%		0.681%		0.681%
Authority's proportionate share of the net pension liability	\$ 226,827	\$	314,025	\$	267,629	\$	245,465
Authority's covered-employee payroll	\$ 675,421	\$	574,843	\$	539,866	\$	519,102
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.58%		54.63%		49.57%		47.29%
Plan fiduciary net position as a percentage of the total pension liability	82.43%		74.21%		75.61%		76.17%

Notes to Required Supplementary Information

Measurement Date

The amounts presented in this schedule were determined as of December 31, 2017.

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Changes in Assumptions

There were not any changes in assumptions in 2018.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information  
Schedule of Pension Contributions (Unaudited)  
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 36,922	\$ 52,378	\$ 67,486	\$ 81,018
Contributions in relation to the statutorily required contribution	<u>(36,922)</u>	<u>(52,378)</u>	<u>(67,486)</u>	<u>(81,018)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 675,421	\$ 574,843	\$ 539,866	\$ 519,102
Contributions as a percentage of its covered-employee payroll	5.47%	9.11%	12.50%	15.61%

Notes to Required Supplementary Information

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Contributions

The Authority is required to pay an annual appropriation as established by the Massachusetts Contributory Retirement System. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance and an amount to amortize the actuarially determined unfunded liability to zero in accordance with adopted early retirement incentive programs.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information  
Schedule of Changes in the Net OPEB Asset and Related Ratios  
For the Measurement Periods Ended June 30

Measurement Period	<u>2017</u>
Total OPEB Asset	
Service cost	\$ 25,786
Interest on the total OPEB liability	22,748
Actual and expected experience difference	
Changes in assumptions	
Changes in benefit terms	
Benefit payments	(635)
Net change in OPEB liability	<u>47,899</u>
Total OPEB asset - beginning	<u>277,841</u>
Total OPEB asset - ending	<u><u>325,740</u></u>
Plan Fiduciary Net Position	
Contribution - employer	\$ 294,917
Net investment income	18,619
Benefit payments	(635)
Administrative expense	
Net change in plan fiduciary net position	<u>312,901</u>
Plan fiduciary net position - beginning	<u>326,614</u>
Plan fiduciary net position - ending	<u><u>639,515</u></u>
Net OPEB Asset - ending	<u><u>(313,775)</u></u>
Plan fiduciary net position as a percentage of the total OPEB asset	196.33%
Covered-employee payroll	530,858
Net OPEB asset as a percentage of covered-employee payroll	-59.11%

Notes to Required Supplementary Information

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Changes in assumptions

The actuarial cost method was changed from Projected Unit Credit Method to Entry Age Normal Method to comply with the requirements set forth in GASB 74 and 75.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information  
Schedule of OPEB Contributions (Unaudited)  
June 30, 2018

	<u>2018</u>
Actuarilly determined contribution	\$ -
Contributions in relation to the actuarilly determined contribution	<u>39,104</u>
Contribution deficiency (excess)	<u>\$ (39,104)</u>
Covered-employee payroll	\$ 675,421
Contributions as a percentage of its covered-employee payroll	5.79%

Notes to Required Supplementary Information

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Changes in assumptions

The actuarial cost method was changed from the Projected Unit Credit Method to the Entry Age Normal Method to comply with the requirements set forth in GASB 74 and 75.

Methods and assumptions used in calculations determined contributions

Actuarial valuation date	July 1, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Increasing at 4.5% over 30 years on an open amortization
Amortization period	30 years
Asset valuation method	Market value
Inflation	3 percent
Healthcare cost trend rates	8 percent initial, decreasing 1 percent per year to an ultimate rate of 5 percent
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation
Pre-Retirement Mortality - General employees	RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using scale BB
Post-Retirement Mortality - General employees	RP-2000 Health Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Schedule 1

STATEMENT OF COSTS (Unaudited)  
JUNE 30, 2018  
FORM 1

	<u>Rural Area Service</u>
I. Operating Costs	
A. RTA administrative costs (excluding depreciation)	\$ 205,652
B. Purchased services	
Fixed route	4,436,873
Demand response	508,303
Brokerage services	65,727
C. Debt Service	19,454
Total Operating Costs	5,236,009
II. Federal Operating Assistance	
A. FTA operating and administrative	895,569
B. Other federal	
Total Federal Assistance	895,569
III. Revenues	
A. Farebox Revenue	1,701,216
B. Brokerage service reimbursement	65,727
C. Other third party reimbursement	92,781
D. Other Revenues	
1. Advertising	
2. Parking	
3. Sale of capital assets	
4. Interest income	8,770
5. Miscellaneous - rent income	43,604
Total Other Revenues	52,374
IV. Net Operating Deficit (I-II-III)	2,428,342
V. Adjustments	
A. Extraordinary expenses (not to exceed 3% of prior year's local assessment)	26,750
B. Stabilization fund	
C. Miscellaneous	13,469
	40,219
VI. Net Cost of Service (IV+V)	2,468,561
VII. Net Cost of Service Funding	
A. Local Assessments	913,966
B. State contract assistance	1,554,595
1. LESS: Adjustment for exceeding 2.5% cap on prior year net operating expenses	
	1,554,595
C. State Contract Assistance to be funded	1,554,595
1. LESS: Payments made by MassDOT in current year	(1,554,595)
D. Balance requested from the State	\$ -
VIII. Unreimbursed Deficit (VI-VIIA-VIIC)	

Schedule of Costs-Calculation Worksheet and Supplementary Data (Unaudited)

June 30, 2018  
Form 2

I. Proof calculations and other required information:

A. Prior year operating expenses, net of fully funded costs brokerage service	\$ 5,141,796
Allowable percentage increase	2.5%
Prior year, net operating expenses times 2.5%	<u>128,545</u>
Current year, allowable net operating expense	5,270,341
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	26,750
Prior year local assessment	<u>891,674</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)	3.00%
C. Aggregate amount of reserve account at June 30.	103,451
Prior year local assessment	<u>891,674</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)	11.60%
D. State the management fee paid to major service providers as a percentage of operating costs incurred.	2.0%
E. State the percentage of benefits paid by RTA on behalf of RTA employees for:	
1. Group life and accidental death insurance	N/A
2. Group health insurance	75.0%
F. State the brokerage service contracts costs as a percentage of total operating costs.	1.3%
G. Stabilization Fund	
1. Current year	
2. Aggregate balance	117,685

Schedule of Local (Towns) Funding (Unaudited)

June 30, 2018

<u>Community</u>	<u>Share</u>
Aquinnah	\$ 39,247
Chilmark	141,682
Edgartown	242,290
Oak Bluffs	135,150
Tisbury	228,994
West Tisbury	<u>126,603</u>
	<u>\$ 913,966</u>