

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts
Department of Transportation)

Financial Statements and
Supplementary Information

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Advisory Board of the
FRANKLIN REGIONAL TRANSIT AUTHORITY
12 Olive Street, Suite 1
Greenfield, MA 01301

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Franklin Regional Transit Authority, a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Franklin Regional Transit 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Franklin Regional Transit Authority as of June 30, 2019 and 2018, and the respective changes in financial position, cash flows thereof, and the respective budgetary comparison information for the enterprise fund, 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 page 4, and the Schedules of the Authority's Proportionate Share of Net Pension Liability and Pension Contributions on page 22, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Franklin Regional Transit Authority's basic financial statements. The supplementary information on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2019, on our consideration of Franklin Regional Transit 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 solely 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 effectiveness of the Authority's 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 Franklin Regional Transit Authority's internal control over financial reporting and compliance.

Adelson + Company PC

ADELSON & COMPANY PC

August 26, 2019

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

The Franklin Regional Transit Authority's (the Authority) discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position (its ability to address the next and subsequent year challenges) and identify any material deviations from the financial plan (the approved budget).

Management's Discussion and Analysis of the Authority's financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2019. Management's Discussion and Analysis should be read in conjunction with the financial statements.

Financial Highlights

- The Authority's net position decreased \$394,256 from fiscal year 2018 primarily due to a net decrease in investment in capital assets of \$327,906 (depreciation of existing assets, additions of new assets, and disposals of old assets), and an increase in the net pension liability of \$63,312.
- Operating revenues increased \$458,214 or 10.6% from fiscal year 2018. The net increase is attributable to an increase fixed route fare income of \$23,942, a decrease in demand response income of \$(32,123), and an increase in fully funded (Medicaid brokerage) services of \$466,395.
- Operating expenses increased \$381,326 or 5.2% from fiscal year 2018. This was primarily due to an increase in Medicaid Brokerage expenses under Fully Funded (see operating revenues above).
- The Authority's operations are funded annually through a required computation of the net cost of service. Except for the establishment of a restricted reserve, the Authority's funding cannot exceed its net cost of service. However, a deficit can result if funding is not sufficient to cover expenses.

Overview of the Financial Statements

The Authority is a component unit of Massachusetts Department of Transportation formed for the purpose of carrying out business-type activities in western Massachusetts communities. The Authority's financial statements consist of three main statements: a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. Notes and supplementary information that disclose information about the nature of the Authority's business, accounting policies and additional information about specific statement amounts follow these statements.

The Authority's net position consists almost exclusively of its net investment in capital assets (e.g. land, intermodal transit center, revenue vehicles and equipment); less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide fixed route and demand response services to individuals within its service area; consequently, these assets are not available for future spending.

FRANKLIN REGIONAL TRANSIT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if any, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority currently has no capital lease obligations or capital debt. Net position also consists of a reserve for extraordinary expenses as allowed by Massachusetts General Laws Chapter 161B Section 6(q). Unfunded deficits, if any, are reported as unrestricted net position.

The Statement of Revenues, Expenses, and Changes in Fund Net Position report the results of both operating and non-operating activities. The Statement of Cash Flows, which is presented using the direct method, accounts for the change in the cash and equivalents balance between July 1 and June 30. The cash flows statement provides the detail on the cash the Authority received from and paid for operating and non-operating activities, investing, and financing activities.

Summary of Net Position

	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>Change</u>
Total current assets	\$ 3,589,916	\$ 3,082,499	\$ 507,417
Property and equipment, net	15,699,781	16,027,687	(327,906)
Deferred outflows of resources related to pensions	<u>244,632</u>	<u>145,328</u>	<u>99,304</u>
Total assets and deferred outflows of resources	<u>19,534,329</u>	<u>19,255,514</u>	<u>278,815</u>
Accounts payable and accrued expenses	605,420	444,965	160,455
Note payable	1,100,000	750,000	350,000
Net pension liability	696,756	482,533	214,223
Deferred inflows of resources related to pensions	<u>4,627</u>	<u>56,234</u>	<u>(51,607)</u>
Total liabilities and deferred inflows of resources	<u>2,406,803</u>	<u>1,733,732</u>	<u>673,071</u>
Investment in capital assets, net of related debt	15,699,781	16,013,742	(313,961)
Invested in capital funded inventory	49,066	53,829	(4,763)
Restricted reserve	89,040	89,040	---
Unrestricted	<u>1,289,639</u>	<u>1,365,171</u>	<u>(75,532)</u>
Total net position	<u>\$ 17,127,526</u>	<u>\$ 17,521,782</u>	<u>\$ (394,256)</u>

FRANKLIN REGIONAL TRANSIT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

**Summary of Statement of Revenues, Expenses,
and Changes in Fund Net Position**

	6/30/2019	6/30/2018	Change
Total operating revenues	\$ 4,799,102	\$ 4,340,888	\$ 458,214
Total operating expenses	7,647,436	7,266,110	381,326
Operating income (loss)	(2,848,334)	(2,925,222)	76,888
Total non-operating revenues (expenses)	2,785,022	2,900,624	(115,602)
Income (loss) before capital contributions and other items	(63,312)	(24,598)	(38,714)
Capital contributions	757,321	1,228,948	(471,627)
Nonreimbursable depreciation	(1,074,846)	(1,094,429)	19,583
Other nonreimbursable expenses	(13,419)	(9,369)	(4,050)
Change in net position	(394,256)	100,552	(494,808)
Net position, beginning	17,521,782	17,421,230	100,552
Net position, ending	\$ 17,127,526	\$ 17,521,782	\$ (394,256)

Operating revenues increased \$458,214 or 10.6% from fiscal year 2018. The details are as follows:

- Fixed route income – increased by \$23,942 or 22.1% from fiscal year 2018 with an increase in farebox collections due to fare rate changes and an increase in ridership.
- Demand response income – decreased by \$32,123 or 21.1% from fiscal year 2018 due to a contract rate reduction for services provided to LifePath. Other demand response collections were consistent with the previous year.
- Brokerage service income – increased by \$466,395 or 11.4% from fiscal year 2018 to the above cited increase in Fully Funded services provided, especially the Medicaid Brokerage.

Operating expenses increased \$381,326 or 5.2% from fiscal year 2018. The details are as follows:

- Fixed Route service expense – decreased by \$47,944 or 2.8% from fiscal year 2018 due to reductions in operator hours and maintenance positions.
- Demand response service expense – decreased by \$85,377 or 9.8% from fiscal year 2018 due to a reduction in costs for demand response transportation provided by the Operating Company which is a function of driver bids.
- Brokerage service expense – increased by \$439,610 or 11.6% from fiscal year 2018 due to the above referenced expansion in this category, particularly the Medicaid portion.

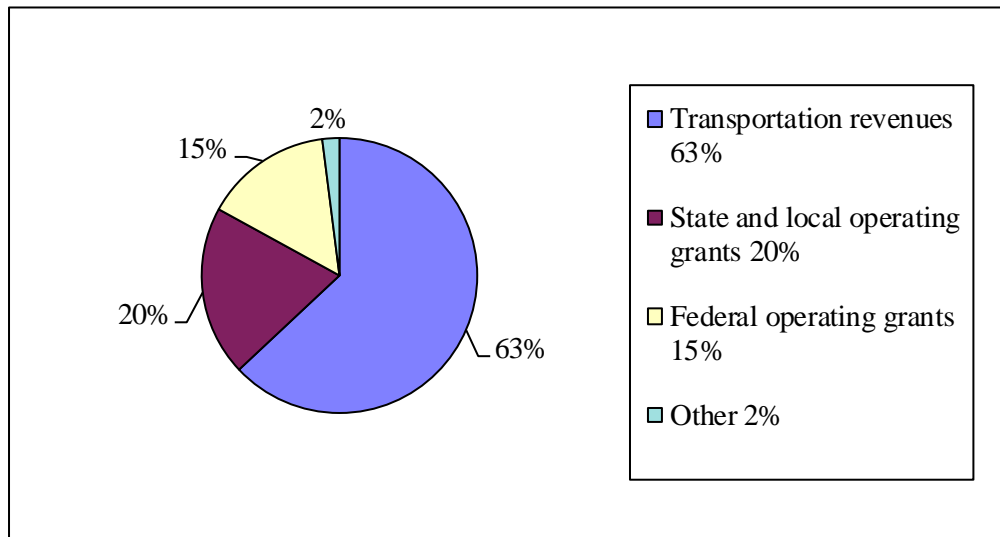
FRANKLIN REGIONAL TRANSIT AUTHORITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

- Administrative salaries, taxes and fringe benefits expense – increased by \$53,302 or 9.0% from fiscal year 2018 primarily due to an increase in pension expense of \$63,312 related to the GASB adjustment for the net pension liability. Health insurance premiums increased relative to fiscal year 2018 but other components remained fairly comparable to the previous fiscal year.
- Other administrative expenses – increased by \$21,735 or 7.9% from fiscal year 2018 due to the increase in expensing of small equipment purchases (covered by capital funds) under equipment expense.

Total Operating and Non-operating
Revenues of \$7,605,418 by Source

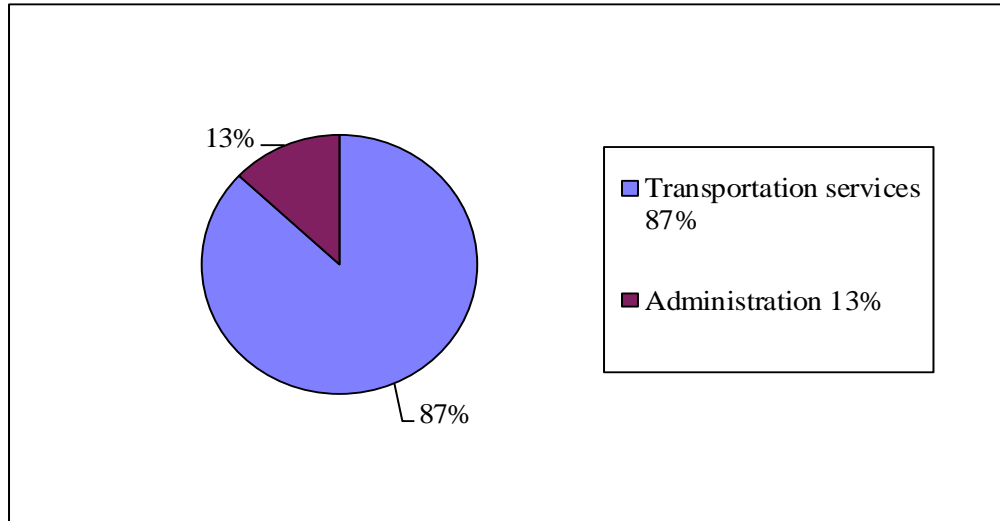


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MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

Total Operating and Non-operating
Expenses of \$7,668,730 by Source



Budget vs. Actual – an analysis of significant 2019 budget variances, including reasons for the variances that may affect future services or liquidity is as follows:

- Fixed route income was \$21,870 more than budget due to increases in fare rates and ridership as well as the continued popularity of the Smart Card (reloadable and unlimited monthly).
- Brokerage services income was \$431,557 more than budget due to an increase in Medicaid services provided.
- Fixed route expenses were \$44,058 more than budget due to the allocation of demand response services provided by the operating company (a function of driver bids) and an increase in the price of fuel.
- Demand response expenses were \$26,607 less than budget due to reduction in demand response transportation being provided by the operating company (Franklin Transit Management) which is determined by driver bids (see fixed route above).
- Brokerage services expenses were \$414,306 more than budget due to the increase in Medicaid services provided.
- Administrative salaries, taxes, and fringe benefits were \$62,051 more than budget due to an increase in the net pension liability of \$63,312, which is a non-reimbursable cost at this time.

**FRANKLIN REGIONAL TRANSIT AUTHORITY
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MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2019

Capital Asset and Debt Administration

Capital assets

The Authority’s purchase of capital assets during the year ended June 30, 2019 was \$748,665. The Authority primarily acquires its capital assets under federal capital grants with state matching funds. The details on capital assets totaling \$15,699,781, net of accumulated depreciation, are disclosed in Note 5 of the financial statements. The purchase of capital assets includes:

	<u>Amount</u>
Revenue vehicles	\$ 237,019
Equipment	47,967
Computer Software	86,975
ITC Center improvements	14,880
Construction of maintenance facility	<u>361,824</u>
Total	<u>\$ 748,665</u>

Revenue Anticipation Notes

At the end of fiscal year 2019, the Authority had a revenue anticipation note payable of \$1,100,000 as compared to a note payable of \$750,000 in fiscal year 2018. This note provides cash flow until federal, state and local appropriations are received.

Subsequent to fiscal year end June 30, 2019, the Authority issued a new \$1,100,000 revenue anticipation note on August 9, 2019 maturing on August 7, 2020 at a rate of 2.00%. The Authority repaid the \$1,100,000 note due August 9, 2019.

Economic Factors and Next Year’s Budget

Funding for the Authority's net cost of service (non-capital expenses less all non-capital revenues except state contract assistance and member municipality assessments) is dependent primarily (up to 75%) on operating assistance from the Commonwealth of Massachusetts. The balance (at least 25% but no more than 50%) of the Authority's net cost of service is funded also in arrears (currently 2 years back) through assessments to member municipalities. These assessments may increase annually in the aggregate by no more than 2.5%, plus the members’ share of any new services.

Local assessments continue to be funded in arrears (2 years behind). This contributes in large part to the Authority’s borrowing needs.

Future service / funding needs

The Authority is entering fiscal year 2020 with persistent concerns regarding funding for State Contract Assistance with this being determined by the annual state budget process. Federal 5311 funds are allocated among the rural RTAs by the Department of Transportation and, although projections are provided, the actual share for the individual “rural” is typically not announced until the fourth quarter of the fiscal year. The Authority will need increases in funding sources for future years, given annual cost increases, if the current level of service is to be maintained.

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For the Year Ended June 30, 2019

Fare increases were put in place for the start of fiscal year 2019 as a means of providing a contribution to offset ever increasing operating costs and this has had very positive results. An additional route run was added in fiscal year 2019 and routes are regularly evaluated to identify underutilized routes/times of service and other modifications in routes and times in an effort to offer more attractive scheduling and therefore enhance ridership while keeping expenses in check.

The Authority is negotiating to extend its maintenance facility lease but continues the process of acquiring property as a site for the construction of a maintenance facility of its own. The Authority has been awarded a Federal grant of \$6,000,000 for the project with the State having already provided some funding. The Federal grant is considerably less than had been applied for but engineering and design work is underway to produce an adequate maintenance facility with this funding and an additional \$2,000,000 contribution committed to by the State Department of Transportation.

Requests for Information

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 the Franklin Regional Transit Authority, 12 Olive Street, Suite 1, Greenfield, MA 01301.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

STATEMENTS OF NET POSITION

June 30,

	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and equivalents	\$ 713,869	\$ 370,126
Receivables	2,645,166	2,479,324
Inventory	133,982	137,160
Prepaid expenses	31,899	30,889
Working capital held by fixed route operator	<u>65,000</u>	<u>65,000</u>
Total current assets	3,589,916	3,082,499
Property and equipment, net	<u>15,699,781</u>	<u>16,027,687</u>
Total assets	19,289,697	19,110,186
Deferred outflows of resources		
Deferred outflows related to pensions	<u>244,632</u>	<u>145,328</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>19,534,329</u>	<u>19,255,514</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable	572,738	427,114
Accrued vacation	7,751	7,672
Accrued interest	24,931	10,179
Note payable	1,100,000	750,000
Net pension liability	<u>696,756</u>	<u>482,533</u>
Total liabilities	2,402,176	1,677,498
Deferred inflows of resources		
Deferred inflows related to pensions	<u>4,627</u>	<u>56,234</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>2,406,803</u>	<u>1,733,732</u>
NET POSITION		
Invested in capital assets, net of related debt	15,699,781	16,013,742
Invested in capital funded inventory	49,066	53,829
Restricted	89,040	89,040
Unrestricted	<u>1,289,639</u>	<u>1,365,171</u>
TOTAL NET POSITION	<u>\$ 17,127,526</u>	<u>\$ 17,521,782</u>

See notes to financial statements.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year Ended June 30, 2019

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues			
Fixed route income	\$ 110,650	\$ 132,520	\$ 21,870
Demand response income	118,935	120,445	1,510
Brokerage service income	4,114,580	4,546,137	431,557
Total operating revenues	4,344,165	4,799,102	454,937
Operating expenses			
Fixed route service	1,644,185	1,688,243	(44,058)
Demand response service	816,150	789,543	26,607
Brokerage service	3,809,500	4,223,806	(414,306)
Salaries, taxes and fringe benefits	585,475	647,526	(62,051)
Other administrative expenses	235,450	298,318	(62,868)
Total operating expenses	7,090,760	7,647,436	(556,676)
Operating income (loss)	(2,746,595)	(2,848,334)	(101,739)
Non-operating revenues (expenses)			
Government operating assistance			
Federal	1,213,087	1,180,585	(32,502)
Massachusetts	951,976	1,013,473	61,497
Member communities	467,632	474,207	6,575
Interest income	4,100	5,627	1,527
Advertising income	5,000	19,556	14,556
Rental income	99,800	101,399	1,599
Other income	15,000	11,469	(3,531)
Interest expense	(10,000)	(21,294)	(11,294)
Total non-operating revenues (expenses)	2,746,595	2,785,022	38,427
Income (loss) before capital contributions and other items	\$ ---	(63,312)	\$ (63,312)
Capital contributions		757,321	
Nonreimbursable depreciation		(1,074,846)	
Other nonreimbursable expenses		(13,419)	
CHANGE IN NET POSITION		(394,256)	
Net position, beginning		17,521,782	
NET POSITION, ENDING		\$ 17,127,526	

See notes to financial statements.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year Ended June 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues			
Fixed route income	\$ 104,560	\$ 108,578	\$ 4,018
Demand response income	162,443	152,568	(9,875)
Brokerage service income	3,713,979	4,079,742	365,763
Total operating revenues	3,980,982	4,340,888	359,906
Operating expenses			
Fixed route service	1,637,162	1,736,187	(99,025)
Demand response service	916,750	874,920	41,830
Brokerage service	3,439,205	3,784,196	(344,991)
Salaries, taxes and fringe benefits	581,100	594,224	(13,124)
Other administrative expenses	253,200	276,583	(23,383)
Total operating expenses	6,827,417	7,266,110	(438,693)
Operating income (loss)	(2,846,435)	(2,925,222)	(78,787)
Non-operating revenues (expenses)			
Government operating assistance			
Federal	1,290,233	1,323,859	33,626
Massachusetts	975,775	997,649	21,874
Member communities	456,227	456,227	---
Interest income	4,700	4,216	(484)
Advertising income	3,500	7,721	4,221
Rental income	104,800	97,093	(7,707)
Other income	18,700	22,799	4,099
Interest expense	(7,500)	(8,940)	(1,440)
Total non-operating revenues (expenses)	2,846,435	2,900,624	54,189
Income (loss) before capital contributions and other items	\$ ---	(24,598)	\$ (24,598)
Capital contributions		1,228,948	
Nonreimbursable depreciation		(1,094,429)	
Other nonreimbursable expenses		(9,369)	
CHANGE IN NET POSITION		100,552	
Net position, beginning		17,421,230	
NET POSITION, ENDING		\$ 17,521,782	

See notes to financial statements.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,847,980	\$ 4,292,512
Payments for goods and services	(6,873,982)	(6,734,822)
Payments to employees	(647,605)	(597,075)
NET CASH (USED) BY OPERATING ACTIVITIES	(2,673,607)	(3,039,385)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts of operating grants	2,668,265	2,777,735
Proceeds from issuing revenue anticipation note	1,100,000	750,000
Repayment of revenue anticipation note	(750,000)	(750,000)
Interest paid	(6,542)	(4,255)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,011,723	2,773,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts of capital grants	757,321	1,228,948
Payments for capital acquisitions	(757,321)	(1,228,948)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	---	---
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	5,627	4,216
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,627	4,216
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	343,743	(261,689)
Cash and equivalents, beginning	370,126	631,815
CASH AND EQUIVALENTS, ENDING	\$ 713,869	\$ 370,126
Reconciliation of operating loss to net cash used by operating activities:		
OPERATING LOSS	\$ (2,848,334)	\$ (2,925,222)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Reimbursable depreciation	1,725	1,725
Advertising income	19,556	7,721
Rental income	101,399	97,093
Other income	11,469	22,799
Other nonreimbursable expenses	(13,419)	(9,369)
Change in assets and liabilities:		
(Increase) decrease in receivables	(165,842)	(265,172)
(Increase) decrease in inventory	11,834	11,999
(Increase) decrease in prepaids	(1,010)	153
Increase (decrease) in accounts payable	145,624	(8,561)
Increase (decrease) in accrued vacation	79	2,851
Increase (decrease) in net pension liability	63,312	24,598
NET CASH USED BY OPERATING ACTIVITIES	\$ (2,673,607)	\$ (3,039,385)

See notes to financial statements.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Franklin Regional Transit Authority (the Authority) operates under Massachusetts General Laws (MGL) Chapter 161B as a body politic and a corporate and political subdivision of the Commonwealth of Massachusetts. The Authority is a component unit of the Massachusetts Department of Transportation. Massachusetts provides funding to the Authority. Its members consist of forty towns in Franklin, Hampshire, Hampden and Worcester counties. It has a general responsibility to develop, finance and contract for the operation of mass transportation facilities within its territory. It is authorized to improve, modify, or extend existing facilities and enter into agreements with other parties, including government agencies, municipalities, authorities, private transportation companies, railroads, corporations, and other concerns, providing for construction, operation and use by such other party of any mass transportation facility or equipment of the Authority.

The Authority's activities are managed by an administrator who is appointed by an Advisory Board which is made up of the chief elected officials or their appointees from the member communities. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from the federal and state government and member municipalities. In addition, the Authority receives capital grants from the federal and state government to finance acquisitions and improvements of facilities and equipment.

Basis of Accounting

An enterprise fund is used to account for the Authority, which is maintained on the accrual basis of accounting.

The Authority uses proprietary fund accounting which follows all Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing transit services to the general public. The principal operating revenues consist of passenger fares and contract reimbursements for demand response transit services provided to agencies of the Commonwealth of Massachusetts. Operating expenses include the cost of transit services provided by third party vendors, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Net Position

Fund net positions are classified as follows in the Authority's financial statements:

Invested in capital assets, net of related debt

The portion of net position represented by capital assets less accumulated depreciation, less outstanding debt incurred by the Authority to buy or construct them. The Authority uses these capital assets to provide transportation services; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, the resources needed to repay this debt, if any, must be provided from other sources, since these capital assets themselves cannot be used to liquidate these liabilities.

NOTE 1 - (Continued)*Restricted*

Amounts that can be spent only for specific purposes because of state laws, or externally imposed conditions by grantors or creditors. The Authority has a Restricted Reserve established for the purpose of meeting the cost of extraordinary expenses in accordance with Massachusetts General Laws, Chapter 161b, Section 6(q). At June 30, 2019 and 2018, the Authority's reserve balance was \$89,040.

Unrestricted

All amounts not included in other spendable classifications.

Funding and Revenue Recognition

The Authority realizes revenue from a variety of different sources including but not limited to local assessment revenue, federal and state operating and capital assistance, fare revenue, and non-fare revenue such as advertising and rental income. Revenue is recognized on the accrual basis of accounting.

Federal and state operating and capital assistance grants are recorded at the time eligible expenditures under the terms of the grants are incurred. Reimbursement under these grants is based on expenses incurred during the fiscal year and is subject to certain compliance regulations.

Budgetary Basis of Accounting

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Administrator presents to the Advisory Board a proposed budget by May 1, each year, for the fiscal year commencing the following July. The budget includes proposed expenditures and the means of financing them.
2. By June 1, each year, the budget is legally enacted by a vote of the Advisory Board.

Capital Grants

The Authority's capital assets are generally acquired with federal, state and local capital grants. These assets are owned by the Authority and included in property and equipment. Proceeds received from dispositions of these assets must be either refunded to the grantor agency or used to acquire new capital items. Capital grant revenues are reflected in the Statement of Revenues, Expenses and Changes in Fund Net Position as capital contributions.

Cash and Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Inventory

Inventory is stated at the lower of acquisition cost or net realizable value. Cost is determined by the first-in, first-out method.

NOTE 1 - (Continued)**Property and Equipment**

Property and equipment are recorded at acquisition cost and depreciation is calculated using the straight-line method over three to forty year lives.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through August 26, 2019, the date which the financial statements were available to be issued.

Concentration of Source of Supply of Labor

The Authority signed a contract effective July 1, 2018 for its fixed route and some of its paratransit and demand response transportation services with Franklin Transit Management, Inc. (FTM), a division of First Transit, Inc. The contract expires on June 30, 2028.

Approximately ninety percent (90%) of FTM's employees are members of the Local 274 United Electrical, Radio and Machine Workers of America Union. FTM's labor agreement with the Union is effective through March 31, 2021.

Comparative Data

Certain prior year amounts may have been reclassified to conform to the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, banker's acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust.

Custodial Credit Risk Related To Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority carries deposits that are insured by FDIC or State depository insurance or collateralized. Insured bank deposits as of June 30, 2019, were \$1,089,797. Uninsured bank deposits as of June 30, 2019 were \$-0-

NOTE 3 - RECEIVABLES CONSISTED OF THE FOLLOWING AT JUNE 30:

	<u>2019</u>	<u>2018</u>
Federal		
Operating assistance	\$ 1,017,624	\$ 1,034,689
Massachusetts		
Capital assistance	276,569	92,910
Brokerage services	<u>692,320</u>	<u>674,219</u>
Total Massachusetts	<u>968,889</u>	<u>767,129</u>
Member communities		
Operating assistance for current year expenditures	474,207	456,227
Operating assistance for prior year expenditures	<u>157,953</u>	<u>145,908</u>
Total member communities	<u>632,160</u>	<u>602,135</u>
Other receivables	<u>26,493</u>	<u>75,371</u>
Total receivables	<u>\$ 2,645,166</u>	<u>\$ 2,479,324</u>

The federal government under 49 USC Section 5311, provides for assistance of up to 50% of the Authority's operating deficit. In addition, under 49 USC Sections 5309, 5310 and 5311, the federal government may provide 80% to 100% of the cost of capital equipment.

Massachusetts general laws require the operating assistance assessed upon member communities be at least 25% of net cost of service including new services. The local assessment can be increased by a maximum of 2.5% over the previous year's local assessment plus 25% of the cost of new service.

The Authority has a contract with the Commonwealth of Massachusetts under which the Commonwealth agrees to provide operating assistance for a portion of the operating deficit remaining after any federal grants and the local assistance have been applied.

NOTE 4 - WORKING CAPITAL HELD BY FIXED ROUTE OPERATOR

Franklin Transit Management, Inc. (FTM) is the fixed route operator for the Authority. They also operate a portion of the demand response service for the Authority. The assets and liabilities held by FTM are owned by the Authority and consist mainly of cash, inventory, prepaid expenses, and accounts payable and accrued wages. The value of these assets less liabilities held by FTM as of June 30, 2019 and 2018 was \$65,000 and are reported as working capital in the Authority's financial statements.

NOTE 5 - PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING AT JUNE 30:

	2019				
	Beginning Balance	Increases	Decreases	Reclassification	Ending Balance
Capital assets, not being depreciated					
Land	\$ 402,170	\$ ---	\$ ---	\$ ---	\$ 402,170
Construction in process	297,135	361,824	---	---	658,959
Total capital assets, not being depreciated	<u>699,305</u>	<u>361,824</u>	<u>---</u>	<u>---</u>	<u>1,061,129</u>
Capital assets, being depreciated					
Revenue vehicles	4,628,784	237,019	(52,505)	---	4,813,298
Support vehicles	259,932	---	---	---	259,932
Equipment	1,454,640	47,967	(65,654)	---	1,436,953
Computer software	503,465	86,975	(36,872)	---	553,568
ITC Center	15,220,480	14,880	---	---	15,235,360
Leasehold improvements	11,651	---	---	---	11,651
Total capital assets, being depreciated	<u>22,078,952</u>	<u>386,841</u>	<u>(155,031)</u>	<u>---</u>	<u>22,310,762</u>
Less accumulated depreciation					
Revenue vehicles	2,517,473	442,557	(52,505)	---	2,907,525
Support vehicles	209,521	19,776	---	---	229,297
Equipment	1,186,719	122,020	(65,654)	---	1,243,085
Computer software	394,807	31,697	(36,872)	---	389,632
ITC Center	2,431,601	460,185	---	---	2,891,786
Leasehold improvements	10,449	336	---	---	10,785
Total accumulated depreciation	<u>6,750,570</u>	<u>1,076,571</u>	<u>(155,031)</u>	<u>---</u>	<u>7,672,110</u>
Total capital assets, being depreciated, net	<u>15,328,382</u>	<u>(689,730)</u>	<u>---</u>	<u>---</u>	<u>14,638,652</u>
Capital assets, net	<u>\$ 16,027,687</u>	<u>\$ (327,906)</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 15,699,781</u>
	2018				
	Beginning Balance	Increases	Decreases	Reclassification	Ending Balance
Capital assets, not being depreciated					
Land	\$ 402,170	\$ ---	\$ ---	\$ ---	\$ 402,170
Construction in process	110,238	193,693	---	(6,796)	297,135
Total capital assets, not being depreciated	<u>512,408</u>	<u>193,693</u>	<u>---</u>	<u>(6,796)</u>	<u>699,305</u>
Capital assets, being depreciated					
Revenue vehicles	4,536,016	855,826	(763,058)	---	4,628,784
Support vehicles	259,932	---	---	---	259,932
Equipment	1,424,151	34,591	(4,102)	---	1,454,640
Computer software	506,884	---	(3,419)	---	503,465
ITC Center	15,075,174	138,510	---	6,796	15,220,480
Leasehold improvements	11,651	---	---	---	11,651
Total capital assets, being depreciated	<u>21,813,808</u>	<u>1,028,927</u>	<u>(770,579)</u>	<u>6,796</u>	<u>22,078,952</u>
Less accumulated depreciation					
Revenue vehicles	2,806,783	473,748	(763,058)	---	2,517,473
Support vehicles	189,744	19,777	---	---	209,521
Equipment	1,066,880	123,941	(4,102)	---	1,186,719
Computer software	363,856	34,370	(3,419)	---	394,807
ITC Center	1,987,618	443,983	---	---	2,431,601
Leasehold improvements	10,114	335	---	---	10,449
Total accumulated depreciation	<u>6,424,995</u>	<u>1,096,154</u>	<u>(770,579)</u>	<u>---</u>	<u>6,750,570</u>
Total capital assets, being depreciated, net	<u>15,388,813</u>	<u>(67,227)</u>	<u>---</u>	<u>6,796</u>	<u>15,328,382</u>
Capital assets, net	<u>\$ 15,901,221</u>	<u>\$ 126,466</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 16,027,687</u>

NOTE 6 - NOTES PAYABLE CONSISTED OF THE FOLLOWING AT JUNE 30:

The Authority is subsidized by local assessments received from its Member communities for its annual “Net Cost of Service”. The Authority is also subsidized by the Federal government. 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.

Revenue anticipation notes consisted of the following for the year ended June 30:

	<u>2019</u>	<u>2018</u>
2.50% Revenue anticipation note, due August 9, 2019	\$ 1,100,000	
1.50% Revenue anticipation note, due August 10, 2018		\$ 750,000
Total	<u>\$ 1,100,000</u>	<u>\$ 750,000</u>

On August 9, 2019, the Authority issued a \$1,100,000 revenue anticipation note maturing on August 7, 2020 at a rate of 2.00%. The Authority repaid the \$1,100,000 note due August 9, 2019.

The Commonwealth is required pursuant to Section 10 of Chapter 161B of the Massachusetts General Laws to pay to the Authority amounts duly certified by the Administrator as necessary to pay the principal and interest on these notes if sufficient funds are not otherwise available; the obligation of the Commonwealth to pay such amounts to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is pledged to make such payments.

NOTE 7 - NET POSITION CONSISTED OF THE FOLLOWING AT JUNE 30:

	<u>2019</u>				
	<u>Invested in capital assets, net of debt</u>	<u>Invested in Capital Funded Inventory</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Net income (loss)				\$ (63,312)	\$ (63,312)
Reimbursable depreciation	\$ (1,725)			1,725	---
Nonreimbursable depreciation	(1,074,846)				(1,074,846)
Other nonreimbursable expenses		\$ (13,419)			(13,419)
Capital contributions	748,665	8,656			757,321
Other changes	13,945			(13,945)	---
Increase (decrease) in net position	(313,961)	(4,763)	---	(75,532)	(394,256)
Net position, beginning	<u>16,013,742</u>	<u>53,829</u>	<u>89,040</u>	<u>1,365,171</u>	<u>17,521,782</u>
Net position, ending	<u>\$ 15,699,781</u>	<u>\$ 49,066</u>	<u>\$ 89,040</u>	<u>\$ 1,289,639</u>	<u>\$ 17,127,526</u>

Restricted net position

A reserve has been established by the Authority, restricted for the purpose of meeting the cost of extraordinary expenses of the Authority in accordance with MGL Chapter 161B Section 6(q). At June 30, 2019 and 2018 the Authority’s reserved balance was \$89,040.

NOTE 7 - (Continued)

	2018				Total
	Invested in capital assets, net of debt	Invested in Capital Funded Inventory	Restricted	Unrestricted	
Net income (loss)				\$ (24,598)	\$ (24,598)
Reimbursable depreciation	\$ (1,725)			1,725	---
Nonreimbursable depreciation	(1,094,429)				(1,094,429)
Other nonreimbursable expenses		\$ (9,369)			(9,369)
Capital contributions	1,222,620	6,328			1,228,948
Increase (decrease) in net position	126,466	(3,041)	---	(22,873)	100,552
Net position, beginning	15,887,276	56,870	89,040	1,388,044	17,421,230
Net position, ending	\$ 16,013,742	\$ 53,829	\$ 89,040	\$ 1,365,171	\$ 17,521,782

NOTE 8 - TRANSPORTATION CONTRACTS CONSISTED OF THE FOLLOWING AT JUNE 30, 2019:

- A. The Authority provided eight fixed routes with the hub being in Greenfield going to Northampton, Orange, Shelburne/Charlemont, Sunderland, and other locations within Greenfield and Montague. During the year ended June 30, 2019 the Authority contracted with Franklin Transit Management, Inc. (FTM), a division of First Transit, Inc., to provide this service, with direct reimbursement for expenses and a management fee paid. FTM operated nineteen of the Authority's thirty-five vehicles providing regular maintenance and drivers.
- B. The Authority contracted with twelve vendors to provide transportation for Human Service Programs. These services include transporting Department of Mental Assistance (DMA) clients to medical appointments, Department of Developmental Services (DDS) clients to Day Habs and work related programs, Department of Public Health (DPH) clients to Early Intervention REACH Programs, and Massachusetts Rehabilitation Commission (MRC) clients in compliance with its contracts with these agencies. Clients in these programs travel at no charge. Contractors bill the Authority at their contracted rate per ride and the Authority in turn bills DMA, DDS, DPH and MRC.
- C. Under agreement to the Authority, nine agencies, including six Councils on Aging (COA), and three private vendors, in addition to a group of volunteers, provided demand-response paratransit service to qualified elderly and disabled persons in their communities. Customers make fare payments to the COA's. The agencies submitted invoices to the Authority for payment less fares. Service was provided in the following towns.

Ashfield	Deerfield	Middlefield	Russell
Bernardston	Erving	Montague	Shelburne
Blandford	Gill	Montgomery	Shutesbury
Buckland	Goshen	New Salem	Southampton
Charlemont	Greenfield	Northfield	Southwick
Chester	Hatfield	Orange	Warwick
Chesterfield	Hawley	Petersham	Wendell
Colrain	Heath	Phillipston	Westhampton
Conway	Huntington	Plainfield	Whately
Cummington	Leyden	Rowe	Worthington

NOTE 9 - PENSION PLAN**Plan**

The Franklin Regional Retirement System (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan that provides pensions for eligible employees of 38 participating employers. The Plan is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Plan does not have the authority to amend benefit provisions. The Plan is governed by a Retirement Board made up of five elected and appointed members.

Results of the Plan for fiscal year ended June 30, 2019 are based on liabilities developed in an actuarial valuation performed as of January 1, 2018 and rolled forward to the plan's measurement date of December 31, 2018.

Results of the Plan for fiscal year ended June 30, 2018 are based on liabilities developed in an actuarial valuation performed as of January 1, 2018. The Plan's measurement date was December 31, 2017.

Accounting Policy

For the purposes of measuring the 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 Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Plan Membership

Plan membership consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Active plan members	1,023	972
Inactive plan members or beneficiaries currently receiving benefits	633	601
Inactive plan members entitled to but not yet receiving benefits	<u>604</u>	<u>614</u>
Total	<u>2,260</u>	<u>2,187</u>

Benefits Provided

The Plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's final 3-year (5-year for members hired after April 1, 2012) average compensation times the member's years of service. The percentage is based on the age of the member at retirement and his or her Group classification. A member may retire after reaching the age of 55 and accumulating 10 years of service or after accumulating 20 years of service regardless of age. Benefits vest after 10 years of service. Cost-of-living adjustments of 3% of the first \$17,000 of annual retirement allowance are provided at the discretion of the System's Retirement Board.

Contributions

Plan members are required to contribute a percentage of their annual compensation that varies according to their membership date, as follows:

Prior to 1975:	5% of salary
1975 – 1983:	7% of salary
1984 – June 30, 1996:	8% of salary
July 1, 1996 – present:	9% of salary
1979 – present:	An additional 2% of salary in excess of \$30,000
Group 1 members hired on or after April 2, 2012:	6% of salary with 30 or more years of creditable service

Employer contributions are determined in accordance with the requirements set forth in Section 22D and 22F of Chapter 32 of the Massachusetts General Laws. The appropriation is comprised of the annual employer normal cost and amortization payments to pay the unfunded actuarial accrued liability.

NOTE 9 - (Continued)**Actuarial Assumptions**

The total pension liability in the December 31, 2018 and 2017 actuarial valuations were determined using the following assumptions, applied to all periods included in the measurement:

Inflation:	3% per year
Salary increases:	Group 1: 6% - 4.25%, based on service Group 4: 7% - 4.75%, based on service
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation

Mortality rates for the 2018 and 2017 actuarial valuations were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement 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.

The long-term expected rate of return on pension plan investments for the 2018 and 2017 actuarial valuations were 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, are summarized in the following table:

Asset Class	2018		2017	
	Target Allocation	Long-Term Expected Rate of Return	Target Allocation	Long-Term Expected Rate of Return
PRIT Core	45%	5%	45%	6%
Domestic Equity	27%	5%	27%	7%
International Equity	5%	5%	5%	6%
Real Estate	10%	7%	10%	7%
Fixed Income	13%	2%	13%	3%
Total	<u>100.00%</u>		<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the 2018 and 2017 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made in accordance with Sections 22D and 22F of Chapter 32 of the Massachusetts General Laws. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. 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.

NOTE 9 - (Continued)**Changes in net pension liability**

	Franklin Regional Retirement System			Franklin Regional Transit Authority		
	100%			1.14% for 2018		
	1.06% for 2017					
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	\$179,588,672	\$127,050,446	\$ 52,538,226	\$ 1,706,419	\$ 1,207,210	\$ 499,209
Net changes	10,051,894	16,869,705	(6,817,811)	295,048	311,724	(16,676)
Balance at December 31, 2017	189,640,566	143,920,151	45,720,415	2,001,467	1,518,934	482,533
Net changes	8,097,584	(7,519,733)	15,617,317	244,708	30,485	214,223
Balance at December 31, 2018	<u>\$197,738,150</u>	<u>\$136,400,418</u>	<u>\$ 61,337,732</u>	<u>\$ 2,246,175</u>	<u>\$ 1,549,419</u>	<u>\$ 696,756</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease	Current	1% Increase
	(6.75%)	Discount Rate (7.75%)	(8.75%)
Authority's proportionate share of the net pension liability as of December 31, 2018	\$ 947,509	\$ 696,756	\$ 484,465
Authority's proportionate share of the net pension liability as of December 31, 2017	\$ 708,063	\$ 482,533	\$ 291,632

Payable to Pension Plan

At June 30, 2019 and 2018, the Authority reported a payable of \$-0- for outstanding amounts of contributions to the pension plan.

Pension Liabilities, Expense and Deferred Inflows and Outflows of Resources

At June 30, 2019, the Authority reported a liability of \$696,756 for its proportionate share of the net pension liability (\$482,533 at June 30, 2018). The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension relative to the projected contributions of all participating System employers, actuarially determined. At December 31, 2018, the Authority's proportion was 1.14%, which was an increase of .08% from its proportion measured as of December 31, 2017 of 1.06%. Net pension liability, deferred outflows/inflows of resources and pension expense are allocated to each employer based on its proportionate share of total employer contributions. For the year ended June 30, 2019, the Authority recognized pension expense of \$141,623 (pension expense of \$94,097 for the year ended June 30, 2018). Contributions made subsequent to the measurement date of December 31, 2018 were \$41,354 (\$36,957 subsequent to December 31, 2017 measurement date).

NOTE 9 - (Continued)

At June 30, the Authority reported deferred inflows and outflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 12,329	\$ 564	\$ 16,092	\$ 864
Net difference between projected and actual investment earnings on pension plan assets	101,167	---	---	45,242
Changes in assumptions	23,238	---	35,353	---
Changes in proportion and differences between employer contributions and proportionate share of contributions	66,544	4,063	56,926	10,128
Contributions subsequent to the measurement date	41,354	---	36,957	---
Total	<u>\$ 244,632</u>	<u>\$ 4,627</u>	<u>\$ 145,328</u>	<u>\$ 56,234</u>

Deferred outflow and inflow of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	2019	2018
2020		\$ 65,337
2021	\$ 117,247	29,734
2022	50,178	5,858
2023	31,896	(11,835)
2024	40,684	---
Total deferred outflows of resources	<u>\$ 240,005</u>	<u>\$ 89,094</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report that includes financial statements and required supplementary information for the Plan. The Plan's report can be obtained by writing to Franklin Regional Retirement System, 278 Main Street, Suite 311, Greenfield, MA 01301.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES*Fiscal year 2020 budget*

For the fiscal year 2020, the Authority has approved an operating budget of \$7,710,145, which excludes depreciation expense. This budget includes grant-matching expenditures, which the Authority is required to meet as its share of federal and state programs.

Federal and State funding

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. As of the date of the financial statements, the Authority is not aware of any expenditure that may be disallowed by a grantor.

Risk management

The Authority is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, natural disasters, and workers compensation claims for which the Authority carries commercial insurance.

NOTE 11 - OPERATING LEASES*Operating Lease Expense - Maintenance Facility*

The Authority leases a maintenance and operations facility located at 382 Deerfield Street, Greenfield, Massachusetts on a month-to-month basis. Total lease expense, including utilities and maintenance was \$100,179 and \$96,820 for the years ended June 30, 2019 and 2018, respectively.

Operating Lease Revenue – Franklin Regional Transit Center

The Authority, as owner and landlord, entered into an agreement to lease office and shared common space to Franklin Regional Council of Governments (FRCOG). The term of the lease is for thirty (30) years, starting July 1, 2012, with two ten year extensions. The base rent is one dollar (\$1.00) per year. The FRCOG is responsible for its share of operating and electricity costs as defined in the lease agreement. Three Advisory Board members are also council members of the FRCOG. Total rental income was \$96,599 and \$92,293 for the years ended June 30, 2019 and 2018, respectively.

NOTE 12 - SALARIES AND OTHER ADMINISTRATIVE EXPENSES CONSISTED OF THE FOLLOWING FOR THE YEARS ENDED JUNE 30:

	2019		Variance Favorable (Unfavorable)	2018
	Budget	Actual		Actual
Salaries, taxes and fringe benefits				
Salaries	\$ 440,000	\$ 427,626	\$ 12,374	\$ 432,861
Payroll taxes	11,800	12,182	(382)	12,332
Fringe benefits	133,675	207,718	(74,043)	149,031
Total salaries, taxes and fringe benefits	<u>585,475</u>	<u>647,526</u>	<u>(62,051)</u>	<u>594,224</u>
Other administrative expenses				
Professional and technical services	55,200	72,203	(17,003)	75,147
Office supplies	3,000	8,204	(5,204)	3,821
Postage	2,800	2,785	15	3,044
Utilities	37,500	40,241	(2,741)	34,025
Travel	1,500	2,481	(981)	1,480
General insurance	28,000	28,161	(161)	26,641
Building insurance	42,000	41,210	790	41,338
Repairs and maintenance	23,700	73,131	(49,431)	52,258
Advertising	15,000	9,602	5,398	10,437
Dues and memberships	8,200	6,488	1,712	7,675
Miscellaneous	18,050	12,087	5,963	18,992
Reimbursable depreciation	500	1,725	(1,225)	1,725
Total other administrative expenses	<u>235,450</u>	<u>298,318</u>	<u>(62,868)</u>	<u>276,583</u>
Total	<u>\$ 820,925</u>	<u>\$ 945,844</u>	<u>\$ (124,919)</u>	<u>\$ 870,807</u>

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, for implementation in fiscal year 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement had no impact on the Authority's financial reporting.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*, for implementation in fiscal year 2019. This Statement requires that all essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; terms specified in debt agreements related to significant events of default and significant subjective acceleration clauses. The Authority's note payable consists of a Revenue Anticipation Note disclosed in Note 6, which includes all disclosures required by this Statement.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

**Schedule of the Authority's Proportionate Share
of the Net Pension Liability**

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
Franklin Regional Retirement System net pension liability	\$ 61,337,732	\$ 45,720,415	\$ 52,538,226	\$ 46,589,813	\$ 37,534,273
Authority's proportion of the net pension liability	1.14%	1.06%	0.95%	0.85%	0.93%
Authority's proportionate share of the net pension liability	\$ 696,756	\$ 482,533	\$ 499,209	\$ 397,900	\$ 349,069
Authority's covered-employee payroll	\$ 347,069	\$ 342,037	\$ 401,188	\$ 341,220	\$ 353,318
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	200.75%	141.08%	124.43%	116.61%	98.80%
Plan fiduciary net position as a percentage of the total pension liability	68.98%	75.89%	70.75%	71.73%	75.98%

Schedule of Authority Pension Contributions

	Plan Year Ended December 31,				
	2018	2017	2016	2015	2014
Franklin Regional Retirement System contractually required contribution	\$ 6,506,893	\$ 6,166,761	\$ 5,875,820	\$ 5,645,345	\$ 5,888,495
Authority's contractually required contribution	73,914	65,084	55,831	48,214	53,064
Authority's contributions in relation to the contractually required contribution	(73,914)	(65,084)	(55,831)	(48,214)	(53,064)
Contribution deficiency (excess)	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Authority's covered-employee payroll	\$ 347,069	\$ 342,037	\$ 401,188	\$ 341,220	\$ 353,318
Contributions as a percentage of covered-employee payroll	21.30%	19.03%	13.92%	14.13%	15.02%

Notes to the Required Supplementary Information

Changes of benefit terms: Effective July 1, 2018, a 2% cost-of-living adjustment of the first \$17,000 was provided.

Changes of assumptions: Retirement and disability rates were revised effective January 1, 2018.

Last 10 years: Only plan years 2014 to 2018 available.

See independent auditors' report.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

SUPPLEMENTARY INFORMATION

**Computation of Operating Assistance
from the Federal Transit Administration
Under 49 USC Section 5311
For Years Ended June 30,**

	2019	2018
Total operating expenses	\$ 7,647,436	\$ 7,266,110
Interest expense	21,294	8,940
Eliminate GASB adjustment for increase to pension expense	(63,312)	(24,598)
Total eligible expenses	7,605,418	7,250,452
Revenues applied to eligible expenses:		
Fixed route income	132,520	108,578
Demand response income	120,445	152,568
Brokerage service income	4,546,137	4,079,742
Other federal, state and local assistance	76,886	85,184
Interest income	5,627	4,216
Advertising income	19,556	7,721
Rental income	101,399	97,093
Other income	11,469	22,799
Total revenues applied to eligible expenses	5,014,039	4,557,901
Net operating expenses eligible under Section 5311	2,591,379	2,692,551
Section 5311 participation in eligible expenses	x 50%	x 50%
Maximum Section 5311 operating assistance	\$ 1,295,690	\$ 1,346,276
Sections 5311 operating assistance sought (amount of maximum funding above or less)	\$ 1,141,397	\$ 1,279,588

The following nonreimbursable items are not included in the eligible expenses above:

Depreciation taken on property and equipment purchased with capital grant funding.

Expenses taken on inventory purchased with capital grant funding.

GASB adjustment for the change in the Authority's net pension liability.

See independent auditors' report.

FRANKLIN REGIONAL TRANSIT AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

SUPPLEMENTARY INFORMATION
STATEMENTS OF NET COST OF SERVICE
For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Operating costs		
Administrative costs	\$ 945,844	\$ 870,807
Purchased services		
Fixed route service	1,688,243	1,736,187
Demand response service	789,543	874,920
Brokerage service	4,223,806	3,784,196
Debt service	21,294	8,940
Eliminate GASB adjustment for increase to pension expense	<u>(63,312)</u>	<u>(24,598)</u>
Total operating costs	<u>7,605,418</u>	<u>7,250,452</u>
Operating assistance and revenues		
Federal operating assistance	<u>1,180,585</u>	<u>1,323,859</u>
Revenues		
Local revenues		
Fixed route income	132,520	108,578
Demand response income	120,445	152,568
Brokerage service income	4,546,137	4,079,742
Interest income	5,627	4,216
Advertising income	19,556	7,721
Rental income	101,399	97,093
Other income	<u>11,469</u>	<u>22,799</u>
Total local revenues	<u>4,937,153</u>	<u>4,472,717</u>
Other operating assistance	<u>37,698</u>	<u>40,913</u>
Total operating assistance and revenues	<u>6,155,436</u>	<u>5,837,489</u>
Net operating deficit	1,449,982	1,412,963
Increase in reserve for extraordinary expenses	<u>---</u>	<u>---</u>
Net cost of service	<u>1,449,982</u>	<u>1,412,963</u>
Net cost of service funding		
Local assessments	474,207	456,227
State contract assistance	<u>975,775</u>	<u>956,736</u>
Total funding	<u>1,449,982</u>	<u>1,412,963</u>
Unreimbursed deficit (surplus)	<u>\$ ---</u>	<u>\$ ---</u>

The following nonreimbursable items are not included in the eligible expenses above:

Depreciation taken on property and equipment purchased with capital grant funding.

Expenses taken on inventory purchased with capital grant funding.

GASB adjustment for the change in the Authority's net pension liability.

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Advisory Board of the
FRANKLIN REGIONAL TRANSIT AUTHORITY
 12 Olive Street, Suite 1
 Greenfield, MA 01301

We have audited, in accordance with the 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, the financial statements of the business-type activities of Franklin Regional Transit Authority, a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Franklin Regional Transit Authority's basic financial statements, and have issued our report thereon dated August 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Franklin Regional Transit Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin Regional Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Franklin Regional Transit Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin Regional Transit Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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August 26, 2019