

**MERRIMACK VALLEY REGIONAL
TRANSIT AUTHORITY**

(A Component Unit of the Massachusetts Department of Transportation)

**FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION, AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2018

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2018

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MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

The following is offered to the readers of the Merrimack Valley Regional Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Merrimack Valley Regional Transit Authority (the Authority) during the fiscal year ended June 30, 2018. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 8.

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 Joseph J. Costanzo, Administrator, Merrimack Valley Regional Transit Authority, 85 Railroad Avenue, Haverhill, Massachusetts 01835.

Overview of the Financial Statements

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

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

The statement of net position presents information on the assets and liabilities, with the difference between the two reported 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.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the fiscal year with the difference – the increase or decrease in net position – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the previous year's end net position total reconciles to the net position total at the end of this fiscal year.

The statement of cash flows reports cash and investment activities for the fiscal year resulting from operating activities, capital and related activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash and investment balance reconciles to the cash and investment balance of the current fiscal year.

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements and can be found on pages 11 through 26 of the report.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 6,887,398	\$ 6,801,105
Restricted and noncurrent assets	5,755,077	4,542,712
Capital assets, net	63,419,061	65,969,388
Total assets	<u>76,061,536</u>	<u>77,313,205</u>
Current liabilities	2,444,360	996,392
Restricted and noncurrent liabilities	9,523,940	9,548,569
Long term liabilities	1,432,202	2,183,735
Total liabilities	<u>13,400,502</u>	<u>12,728,696</u>
Net position:		
Invested in capital assets, net of related debt	63,419,061	65,969,388
Restricted	117,028	117,028
Unrestricted	(875,055)	(1,501,907)
Total net position	<u>\$ 62,661,034</u>	<u>\$ 64,584,509</u>
Operating revenue		
Revenue from transportation	\$ 1,784,759	\$ 1,792,097
Pension Settlement	764,769	-
Other	1,042,916	953,115
Total operating revenues	<u>3,592,444</u>	<u>2,745,212</u>
Operating expenses:		
Transportation services	15,243,275	14,983,863
Other operating expenses	1,902,681	1,708,642
Total operating expenses, excluding depreciation	<u>17,145,956</u>	<u>16,692,505</u>
Depreciation and amortization	4,039,070	3,920,433
Total operating expenses, including depreciation	<u>21,185,026</u>	<u>20,612,938</u>
Operating loss	<u>(17,592,582)</u>	<u>(17,867,726)</u>
Net nonoperating revenue	<u>14,180,364</u>	<u>13,906,025</u>
Loss before capital grants	(3,412,218)	(3,961,701)
Capital grants and contributions	1,488,743	5,217,550
Change in net position	<u>(1,923,475)</u>	<u>1,255,849</u>
Net position:		
Beginning of year	64,584,509	63,328,660
End of year net position	<u>\$ 62,661,034</u>	<u>\$ 64,584,509</u>

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$62,661,034. The Authorities total net position decreased by \$1,923,475 mainly due to the depreciation of capital grant assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares decreased \$7,338, or 0.41%, due to a decline in ridership.
- Total operating expenses, excluding depreciation, increased by \$453,451, or 2.71%, due to increased transportation expenses.
- Revenues from assessments from member municipalities increased by 2.5% as allowed by law plus the cost of new services.
- Federal operating assistance increased while state contract assistance decreased. Federal capital assistance decreased; state capital assistance increased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2018 amounted to \$63,419,061 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions during the fiscal include the following:

Transit equipment	\$ 2,870,760
Service equipment	37,768
	<u>\$ 2,908,528</u>

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

At year-end, the Authority had \$8,200,000 of revenue anticipation notes outstanding, an increase of \$100,000 from the prior year.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Economic Factors and Next Year's Budgets

Funding the Authority's net cost of service consists of non-capital expenses less all non-capital revenues, except member municipality assessments and contract assistance from the Commonwealth of Massachusetts. The net cost of service is funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. The State provides State Contract Assistance currently as opposed to reimbursing.

The Newburyport Intermodal Parking Facility started construction in March 2018. The City of Newburyport is overseeing the construction phase with Federal Transit funds being provided through MVRTA. The Authority's role is oversight of the construction phase to ensure compliance with FTA requirements.

During the Fiscal Year, the Authority completed these capital projects:

- ***Bus Replacement***
In May 2018, six new transit buses were received and would be placed into service. These new buses will replace the six remaining Model Year 2004 transit buses.
- ***Van Addition***
At the end of the Fiscal Year, the MVRTA received delivery of one new van, financed through RTACAP. This new van would augment the 22 vans presently being used for service.
- ***Real Time Bus Location Project***
In February 2018 a Real Time Bus Location System Transit App was implemented. The App provides the location of MVRTA transit and commuter buses in real time to assist customers in using the local and commuter bus services.
- ***Replace Engines in Eight 2012 Buses***
A contract was signed with Cummins, Inc. to provide new engines to replace existing engines in 8 model year 2012 transit buses. These engines were delivered in June 2018 and replacement would begin in FY 2019.
- ***Replace Revenue Collection Equipment***
In October 2017 new revenue collection equipment for the McGovern Transportation Center and the Haverhill Intermodal Parking Facility was installed by Wescor, Inc.

During the Fiscal Year, the Authority did not implement any new services.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

During the Fiscal Year, the Authority maintained its emergency response capability in a state of readiness. The Authority's Mass Casualty/Evacuation assets consist of one Ambubus, two Evacuation buses, and two Evacuation vans. Working with the Northeast Homeland Security Advisory Council (NERAC), funds were made available to upgrade the one Ambubus and two Evacuation buses from 1996 and 1999 model year buses to 2004 model year buses.

In June 2018, the Advisory Board adopted a FY 2019 Budget to take effect on July 1, 2018. Grants for operating and capital funds were filed with the Federal Transit Administration and were approved, the FY 2017 Annual Audit was prepared and accepted by the Advisory Board and posted to the Authority's website, borrowings were completed to finance operations and the Five-Year 2019-2023 Capital Plan was prepared and adopted by the Advisory Board.

In Fiscal Year 2019, the Authority will undertake these Capital Projects:

- Purchase 3 new 35' transit buses to replace three Model Year 2007 buses. Delivery is expected by June 2020.
- Complete construction of the Newburyport Intermodal Parking Facility
- Replace one supervisory support vehicle.
- Refurbish 4 above ground maintenance vehicle lifts
- Complete Phase 1 of a Riverbank Stabilization Project: Design/Permitting

Fixed Route ridership increased from 1,912,293 in FY 2012 to 1,954,667 in FY 2013, increased to 2,024,281 in FY 2014, increased to 2,175,917 in FY 2015, increased to 2,285,958 in FY 2016, decreased to 2,157,133 in FY 2017 and decreased to 2,046,556 in FY 2018.

Ridership on the Boston Commuter Bus increased from 52,175 in FY 2012 to 63,470 in FY 2013, decreased to 63,207 in FY 2014, decreased to 62,634 in FY 2015, increased to 65,627 in FY 2016, decreased to 63,104 in FY 2017 and decreased to 60,763 in FY 2018.

Ridership for Special Services Transportation decreased from 66,895 in FY 2012 to 66,245 in FY 2013, increased to 66,271 in FY 2014, decreased to 62,142 in FY 2015, increased to 68,002 in FY 2016, increased to 70,534 in FY 2017 and increased to 81,952 in FY 2018.

ROLAND P. LAMBALOT, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Merrimack Valley Regional Transit Authority

We have audited the accompanying financial statements of the Merrimack Valley Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net financial position as of and for the year ended June 30, 2018, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

An audit 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Merrimack Valley Regional Transit Authority as of June 30, 2018 and the respective changes in its financial position and its cash flows thereof for the year 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 1 through 5, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios and Schedule of Required Contributions on pages 27 and 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 29 and 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules are the responsibility of management and were derived from and relate 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 Schedules are 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 September 27, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Roland P. Lambalot, PC

Methuen, Massachusetts
September 27, 2018

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position

June 30, 2018

Assets and Deferred Outflow of Resources

Current assets:

Unrestricted cash and cash equivalents (Note 3)	\$ 1,660,374
Federal operating assistance	997,208
Receivables from cities and towns	3,867,502
Other receivables	236,370
Prepaid expenses	125,944
Total current assets	<u>6,887,398</u>

Restricted and noncurrent assets:

Restricted cash and cash equivalents (Note 3)	321,185
Receivables from cities and towns (Note 11)	1,483,374
Noncurrent costs	709,417
Capital assistance receivables	2,728,602
Capital assets, net (Note 4)	63,419,061
Total restricted and noncurrent assets	<u>68,661,639</u>
Total Assets	<u>75,549,037</u>

Deferred outflow of resources related to pension plans

512,499

Total assets and deferred outflows of resources

\$ 76,061,536**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	\$ 2,179,072
Accrued payroll	93,352
Accrued interest payable	45,992
Revenue bond - current portion	125,944
Total current liabilities	<u>2,444,360</u>

Restricted and noncurrent liabilities:

Accounts payable	1,323,940
Net pension liability	722,785
Revenue anticipation notes (Note 6)	8,200,000
Revenue bond (Note 7)	709,417
Total restricted and noncurrent liabilities	<u>10,956,142</u>
Total Liabilities	<u>\$ 13,400,502</u>

Net Position

Invested in capital assets, net of related debt	\$ 63,419,061
Restricted (Note 13)	117,028
Unrestricted (Note 18)	(875,055)
Total net position	<u>\$ 62,661,034</u>

See accompanying notes to the financial statements

MERRIMACK VALLEY 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:	
Passenger fares	\$ 1,784,759
Terminal revenues	970,953
Pension settlement	764,769
Other Income	71,963
	<hr/>
Total operating revenues	3,592,444
	<hr/>
Operating Expenses:	
Transit service	13,043,562
Maintenance	2,199,713
Terminal expenses	1,236,246
GASB 68 Pension expense	254,750
General Administration	411,685
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	17,145,956
Depreciation	4,039,070
	<hr/>
Total operating expenses	21,185,026
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Operating loss	(17,592,582)
	<hr/>
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	3,996,007
Commonwealth of Massachusetts contract assistance	6,702,780
Local Assessments	3,591,725
Interest income	12,759
Interest expense	(122,907)
	<hr/>
Total non-operating revenues	14,180,364
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Loss before capital grants	(3,412,218)
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Capital Grants and Contributions	1,488,743
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Change in net position	(1,923,475)
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Net position, beginning of the year	64,584,509
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Net position, end of the year	\$ 62,661,034
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See accompanying notes to the financial statements

MERRIMACK VALLEY 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:	
Passenger fares	\$ 1,784,759
Terminal revenues	970,953
Other cash receipts	71,963
Payments to operators	(14,763,353)
Payments to other vendors	(1,368,984)
Payments to employees for services	(274,685)
Net cash used in operating activities	<u>(13,579,347)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	8,200,000
Principal paid on revenue anticipation notes	(8,100,000)
Principal paid on revenue bond	(121,806)
Interest paid on debt	(139,338)
Operating and contract assistance	13,534,953
Net cash provided by non-capital financing activities	<u>13,373,809</u>
Cash flows from capital and related financing activities:	
Capital grants	2,272,850
Purchase of capital assets	(2,908,528)
Net cash used by capital and related financing activities	<u>(635,678)</u>
Cash flows from investing activities:	
Interest income	12,759
Net cash provided by investing activities	<u>12,759</u>
Net change in cash and cash equivalents	(828,457)
Cash and cash equivalents, beginning of year	<u>2,810,016</u>
Cash and cash equivalents, end of year	<u>\$ 1,981,559</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (17,592,582)
Adjustments:	
Depreciation	4,039,070
Changes in assets and liabilities	
Local assessment and other receivables	(841,495)
Prepaid expenses	(4,133)
Accounts payable and deferrals	819,793
Net cash used in operating activities	<u>\$ (13,579,347)</u>

See accompanying notes to the financial statements

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

Notes to Financial Statements

June 30, 2018

Note 1. The Reporting Entity

The Authority, a political subdivision of the Commonwealth of Massachusetts (the Commonwealth), was established in accordance with Chapter 161B of the Massachusetts General Laws to provide a public transit system for the territory comprised of the cities of Lawrence, Haverhill, Methuen, Newburyport and Amesbury, and the towns of Andover, Rowley, Boxford, Merrimac, North Andover, Groveland, Newbury, West Newbury, Georgetown and Salisbury. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criteria, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Massachusetts Department of Transportation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Budget

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

C. Cash and Cash Equivalents

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

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Notes to Financial Statements

June 30, 2018

D. Compensated Absences

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies. The amount of the vested accrual at June 30, 2018 was \$93,352.

E. Capital Assets

Capital assets are stated at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in condition for use. Capital assets are defined as assets with initial, individual costs exceeding \$5,000.

F. Depreciation

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

Buildings	20-40 years
Vehicles	5-12 years
Passenger Shelters	5 years
Furniture, fixtures and equipment	5-7 years

G. 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.

H. Concentration of Credit Risk

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

I. Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Notes to Financial Statements

June 30, 2018

J. Reimbursed Cost of Service

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

K. Statement of Net Position

The statement of net position presents all of the Authority’s assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed of the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

L. Restricted Assets and Restricted Liabilities

Restricted assets are restricted for the acquisition of capital assets and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

M. New Accounting Pronouncements

During Fiscal 2017 GASB the following Statements were adopted and implemented, when necessary, by the Authority. The adoption of these standards did not have a material impact on the Authority’s financial statements

- No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- No. 81 – *Irrevocable Split-Interest Agreements*
- No. 83 – *Certain Asset Retirement Obligations*
- No. 84 – *Fiduciary Activities*
- No. 85 – *Omnibus*
- No. 86 – *Pension Issues*

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2018

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

- No. 83 – *Certain Asset Retirement Obligations* – effective FY2020
- No. 84 – *Fiduciary Activity* – effective FY2020
- No. 87 – *Leases* – effective FY2021
- No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – effective FY2019
- No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period* – effective FY2021

N. Pension Plans

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which changed the way in which the Authority reports its participation in its defined benefit pension plan. Among the changes, GASB Statement No. 68 requires the Authority to record a liability on the statement of net position for its unfunded pension plans' obligation. 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 Lawrence Retirement System (LRS) and additions to/deductions from the LRS's fiduciary position have been determined on the same basis as they are reported by LRS. 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.

O. 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 plan.

Note 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 Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT"). Certain cash and investments are segregated from operating cash due to certain internal or external restrictions. These funds consist of those required by bond reserve requirements and state allowed reserves.

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Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority does not have a deposit policy for custodial risk. As of June 30, 2018 \$-0- of the government's bank balance of \$4,932,168 was exposed to custodial credit risk as uninsured and uncollateralized. This amount was collateralized, in part, by \$4,675,000 in letters of credit provided by the bank.

Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2018:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	1,419,786	-	1,419,786	-
Total capital assets not being depreciated	<u>5,618,320</u>	<u>-</u>	<u>1,419,786</u>	<u>4,198,534</u>
Other capital assets:				
Buildings and improvements	62,265,020	-	-	62,265,020
Buses - revenue vehicles	28,824,003	2,870,760	307,601	31,387,162
Service equipment	2,134,276	37,768	-	2,172,044
Electronic equipment	2,987,801	-	-	2,987,801
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	307,522	-	-	307,522
Total other capital assets at historical cost	<u>96,566,422</u>	<u>2,908,528</u>	<u>307,601</u>	<u>99,167,349</u>
Less accumulated depreciation for:				
Buildings and improvements	18,153,372	1,641,794	-	19,795,166
Buses - revenue vehicles	13,798,481	2,150,362	307,601	15,641,242
Service equipment	1,293,344	152,218	-	1,445,562
Electronic equipment	2,880,451	40,766	-	2,921,217
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	41,906	53,929	-	95,835
Total accumulated depreciation	<u>36,215,354</u>	<u>4,039,069</u>	<u>307,601</u>	<u>39,946,822</u>
Other capital assets, net	<u>60,351,068</u>	<u>(1,130,541)</u>	<u>-</u>	<u>59,220,527</u>
Total capital assets, net	<u>\$ 65,969,388</u>	<u>(1,130,541)</u>	<u>1,419,786</u>	<u>63,419,061</u>

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Note 5. Grants

Under various sections of the Fixing America's Surface Transportation (Pub. L1 114-94; 12/4/2015 FAST Act) Act, the United States Department of Transportation approves capital grants to fund up to 80% of the Authority's capital improvement projects. The remaining portion of approximately 20% will be financed through the Massachusetts Department of Transportation. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition the Federal government may fund up to 80% of the Authority's preventative maintenance and complementary ADA services costs, as defined.

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2018 was \$6,702,780.

Note 6. Revenue Anticipation Notes

At June 30, 2018, the Authority had \$8,200,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 1.196% and are due June 28, 2019.

	Outstanding at June 30 2017	Issued	Retired	Outstanding at June 30 2018
	<u>2017</u>	<u>Issued</u>	<u>Retired</u>	<u>2018</u>
1.156% revenue anticipation note	\$ 7,100,000	-	7,100,000	-
1.130% revenue anticipation note	\$ 1,000,000	-	1,000,000	-
1.966% revenue anticipation note	-	8,200,000	-	8,200,000
Total	<u>\$ 8,100,000</u>	<u>8,200,000</u>	<u>8,100,000</u>	<u>8,200,000</u>

The Authority uses the proceeds of these notes to fund its mass transit operations. The RAN is considered short term debt that is expected to be refinanced and is included in the accompanying Statement of Net Position as a noncurrent liability.

Note 7. Revenue Bond

Financing of \$2,000,000 for the McGovern Transportation Center was obtained through the Massachusetts Development and Finance Agency. This funding is in the form of a revenue bond that was effective July 1, 2004 and was interest only at a rate of 4.99% through September 1, 2005. The bond converted to an amortization schedule with the first monthly payment of \$13,667 due on October 1, 2005. The initial interest rate was subject to change on July 1, 2009. The new rate is 3.341% with a monthly payment of \$12,661. The bond is secured by all net revenues generated by the parking garage. The bond also contains a debt service reserve fund requirement of \$150,000.

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The principal and interest maturities of the bonds as of June 30, 2018 are as follows:

Fiscal Year(s):	<u>Principal</u>	<u>Interest</u>
2019	\$ 125,994	25,992
2020	130,216	21,720
2021	134,634	17,302
2022	139,202	12,734
2023	143,924	8,011
2024 - 2025	161,391	3,162

Note 8. Retirement Plan Settlement

In June of 2016 the MVRTA settled a dispute with the Lawrence Retirement Board regarding the amount retirement benefits attributable to service with the MVRTA prior to July 1, 2008. The settlement of \$764,769 was to be remitted over 20 years beginning in fiscal 2017. The agreement called for one-time payment of \$100,000 with annual payments of \$66,453 inclusive of interest at 7.75% through fiscal 2036. The Authority paid the balance of the settlement in fiscal 2017. The Authority expensed the entire settlement in its fiscal 2016 financial statements in accordance with generally accepted accounting principles. It was treated in the Retirement System's subsequent financial reports as a contribution with related adjustments to pension expense and deferred outflows. These statements have been adjusted to conform to a manner in which the pension plan reported out these amounts.

Note 9. Retirement Plans

General Information about the Pension Plan

A. Plan Description

The Lawrence Retirement System (LRS) is multiple- employer, cost sharing, contributory defined benefit pension plan covering all employees of the government member units deemed eligible by the Lawrence Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory upon the commencement of employment for all permanent employees working a minimum of 20 hours per week. Participating member units include the City of Lawrence, the City of Lawrence School Department (Non Teachers), the Lawrence Housing Authority, and the Merrimack Valley Regional Transit Authority.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

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The Retirement Board is responsible for maintaining records of member employee contributions, for determining eligibility for retirement due to any service and disability, or for the payment of retirement benefits. The System is governed by five member Board who establish the policies under which the System operates. Board members are appointed or elected as specified by Massachusetts General Laws (MGL) CH. 32, Section 20 for terms not to exceed 3 years.

B. Benefits Provided

Massachusetts contributory retirement system benefits are, with certain exceptions such as cost of living adjustments which can be adopted by the Board from time to time, uniform from system to system. The System 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 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.

There are three classes of membership in the retirement system: group 1, group 2, and group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. MGL Chapter 32 requires that systems be on an actuarially determined funding schedule to be fully funded by 2040. Under the current funding schedule, the System will be fully funded by 2036.

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status and group classification.

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Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of the accumulated total deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

C. Funding Policy

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn an interest rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System. The Authority is required to pay into the Retirement System its share of the system-wide actuarially determined contribution, which is apportioned among the employers, based on active covered payroll. The Authority's contribution to the Retirement System for the year ended June 30, 2018 was \$66,833, which equaled its required contribution for the year.

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 \$722,785 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, 2018. 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 0.34 percent.

Since LRS performs an actuarial valuation bi-annually, there are no reported amounts for changes in benefit terms differences between expected and actual experience and changes in assumptions as of December 31, 2017.

In the LRS financial statements for the year ended December 31, 2017, in addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of fiduciary net position that applies to a future period (s) and so will not be recognized as an outflow of resources (deduction) until then.

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In addition to liabilities, the statement of fiduciary net position will sometimes report a separate section for deferred inflow of resources. This separate financial element, *deferred inflow of resources*, represents an acquisition of net position that applies to future period (s) and so will not be recognized as an inflow of resources (addition) until that time. The LRS did not have any items that qualify for reporting in this category.

For the year ended June 30, 2018, the Authority recognized pension expense of \$254,750. At June 30, 2018 the Authority reported deferred outflows related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on pension plan investments	\$ 512,499

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

Year ended June 30:	2019	\$ 107,514
	2020	107,162
	2021	98,377
	2022	97,819
	2023	100,331
	Thereafter	1,296

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June 30, 2018

A. Actuarial Assumptions

The total pension liability in the January 1, 2018 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	Individual entry age normal cost method
Amortization method	Payments increase at 3.24 percent
Asset valuation method	Market value adjusted by payables and receivables
Remaining amortization period	17 years
Inflation	3.0 percent
Salary increases	3.75 percent per year plus 4% steps for the first 5 years of service
Investment rate of return	7.50 percent per year of net investment expenses
Cost of living adjustments	Assumed that the cost-of-living increases will continue to be funded by the state at 3 percent on the first \$12,000 of retirement allowance
Mortality rates:	
Pre-retirement	The RP-2014 Mortality Table for Healthy Employees and Annuitants (sex distinct) projected with scale BB and generational mortality
Post-retirement	Mortality rates from the RP-2014 Annuity Mortality Table, set forward for two years

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period of January 1, 2016 to January 1, 2018.

The long term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience. The allocation percentages were provided by the Pension Reserves Investment Management Board (PRIM). PRIM supplied nominal rates of return which were adjusted to real rates of return using a 3.00% inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Allocation</u>	<u>Rate of Return</u>
Domestic Equities	17.50%	4.47%
International Equities	15.50%	4.66%
Emerging Markets Equities	6.00%	6.12%
Core Fixed Income	5.00%	0.73%
Value-Added Fixed Income	10.00%	3.50%
Private equity	12.00%	6.31%
Real Estate	10.00%	3.59%
Timberland	4.00%	3.16%
20+ year Treasury Strips	2.00%	0.49%
TIPS	5.00%	0.73%
Portfolio Completion	13.00%	3.44%
Total	<u>100.00%</u>	

B. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at actuarially determined contribution rates. 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 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.

C. 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Authority's proportionate share of the net pension liability	\$ 887,335	\$ 722,785	\$ 582,632

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D. Changes in Assumptions

The following changes in assumptions were made from the previous measurement date:

- Amortization method increases were reduced from 3.34 percent to 3.24 percent
- Remaining amortization period was reduced from 20 to 17 years
- Discount rate was reduced from 7.75 percent to 7.50 percent
- Mortality rate tables were changed from RP-2000 to RP-2014

E. Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LRS financial report. Requests for copies of the report should be addressed to the System's Board at 350 Merrimack Street, Suite 302, Lawrence, MA 01843.

Other Pension Plans

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

Note 10. Risk Management

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2018.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2018, expenditures for the Authority's share of health insurance contributions were \$34,235. The Authority purchases insurance for worker's compensation for its employees.

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Note 11. Commitments and Contingent Liabilities

A. Capital Investment Program

The Authority's capital investment continuing program for mass transportation development has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2018, capital projects costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources.

<u>Funding Source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 2017</u>	<u>Unexpended costs</u>
Federal grants	\$ 9,464,882	7,741,913	1,722,969
State and local sources	2,366,221	1,936,344	429,877
Total	<u>\$ 11,831,103</u>	<u>9,678,257</u>	<u>2,152,846</u>

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

B. Legal and Other

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

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

The Authority has entered into a five year agreement for management services effective July 1, 2017. Annual fees start at \$870,616.

The State changed its methodology for reimbursing the Authority for local member community assessments presented in current and past audits. This change affected all Transit Authorities in the Commonwealth with the exception of the MBTA. MVRTA has accumulated \$1,483,374 in shortages going back to fiscal 2008. Discussions have been going on through the Authority's representative, the Massachusetts Association of Regional Transit Authorities (MARTA). Little progress has been made in resolving this matter. The state changed the format of current reimbursement to two years in arrears.

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C. Fuel Contracts

The Authority had the following contracts outstanding during the fiscal year:

Product	Term	Gallons	Price
Unleaded Gasoline	7/1/17 - 6/30/18	90,000	\$ 1.88
Ultra Low Sulfur Diesel	7/1/17 - 6/30/18	485,000	1.84

The Authority did not enter into any fuel contracts up to the date of the release of the financial statements.

Note 12. Net Investments in Capital Assets

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

Cost of Capital Assets Acquired	\$ 103,365,882
Less: Accumulated Depreciation	39,946,821
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u><u>\$ 63,419,061</u></u>

Note 13. Net Position – Restricted for Other Purposes

In Accordance with Massachusetts General Laws Chapter 161 Section 6(q) the Authority has established a reserve for extraordinary expenses. Prior approval from state officials is required before any expenditures can be made. At June 30, 2018 that reserve amounted to \$117,028. The Authority has also set aside \$150,000 in a separate account to meet bond service requirements.

Note 14. Transit Service

The operation of the Authority’s fixed route service and maintenance of the Authority’s transportation property are performed by First Transit under the terms of an agreement whereby First Transit operates mass transit along such routes and according to such a schedule as defined by the Authority. First Transit has two operating subsidiaries, Merrimack Valley Area Transportation Company (MVATC) which operates the fixed route service and Special Transportation Services (STS) which operates the elderly and handicapped services. In return, the Authority agrees to pay First Transit a management fee and to reimburse MVATC and STS for all costs and expenses which are reasonable and necessary for the efficient operation of the services.

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Note 15. The Lawrence Gateway Quadrant Area Re-Use Plan

The parking area is complete and operational. The Authority is waiting for Aerojet Rocketdyne, Inc. to complete and receive approval from the US EPA on its final plan for long term compliance monitoring. Once this is approved the MVRTA will take title to the parking area land. The Oxford Park project was completed in October 2013 and was undertaken to meet the compensatory flood requirements of the Mass DEP and to assist the City of Lawrence in completing its City Greenway system. No FTA or MassDOT funds are being used on this park project. As of June 30, 2018 there was no set date for EPA approval of Aerojet Rocketdyne Holdings, Inc. plans.

Note 16. Related Party

The Authority is deemed to be a related part of the Commonwealth of Massachusetts and the Massachusetts Department of Transportation due to its status as a component unit. Related party transactions consisted of Operating Assistance of \$6,702,780; State Capital Assistance of \$2,790,587; and Local Assessments of \$3,591,725 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$5,350,876 in operating assistance to be billed to the Communities constituting the Authority; and \$1,803,639 of State Capital Assistance.

Note 17. Executive Compensation

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the “salaries and other compensation of its executive director, officers, board members and other highly compensated employees”. Compensation is defined in the regulation, 801 CMR 53.04 (1) to include “base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time”. The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$120,368 during the fiscal year.

Note 18. Unrestricted Net Position

The balance in the Unrestricted Net Position on the Statement of Net Position reflects the effect of the presentation of the net pension liability required of (\$210,286) as well as the pension settlement of (\$664,769).

Note 19. Subsequent Events

The Authority has evaluated events subsequent to June 30, 2018 through September 27, 2018, the date on which the financial statements were available for issuance, and determined that there are no material items that would require recognition or disclosure in the Authority’s financial statements.

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Required Supplementary Information (Unaudited)

Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios

Last 10 Fiscal Years

	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered-employee payroll	Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of total pension liability
2018	0.3400%	\$ 722,785	\$ 243,141	297.27%	51.49%
2017	0.3400%	\$ 1,348,379	\$ 234,333	575.41%	46.80%
2016	0.3378%	\$ 783,431	\$ 240,671	325.52%	44.00%
2015	0.3360%	\$ 734,844	\$ 231,972	316.78%	45.22%

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 Information

Since the Lawrence Retirement System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2017.

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Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

Last 10 Fiscal Years

	Actuarially required contribution	Contributions in relation to the actuarially required contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of its covered-employee payroll
2018	\$ 66,833	66,559	\$ 274	\$ 243,141	27.49%
2017	\$ 228,498	228,529	\$ (31)	\$ 234,333	97.51%
2016	\$ 61,757	61,757	\$ -	\$ 240,671	25.66%
2015	\$ 58,440	58,440	\$ -	\$ 231,972	25.19%

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, an amount to amortize the actuarially determined unfunded liability to zero in accordance with adopted early retirement incentive programs.

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Schedule of Net Cost of Service (Unaudited)

For the Year Ended June 30, 2018

OPERATING COSTS

MVRTA administrative costs	\$ 471,865
Purchased services	
Fixed route	12,898,829
Demand responsive	2,334,266
Terminal expense	1,236,246
Debt service - interest	122,907
Total operating costs	<u>17,064,113</u>

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	3,929,174
Other federal	-
Total federal assistance	<u>3,929,174</u>

REVENUES

Operating	
Farebox revenue	1,784,759
Other Revenue	
Terminal revenues	970,953
Advertising	62,545
Interest income	12,759
Miscellaneous	9,418
Total other revenue	<u>1,055,675</u>

NET OPERATING DEFICIT

10,294,505

ADJUSTMENTS

Extraordinary expenses	-
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NET COST OF SERVICE

10,294,505

NET COST OF SERVICE FUNDING

Local assessments	3,591,725
State contract assistance to be funded	6,702,780
Less: state operating assistance received	6,702,780
Balance requested from the State	-

UNREIMBURSED DEFICIT

-

See accompanying independent auditors' report

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Allocation of Local Assessments (Unaudited)

June 30, 2018

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2017 as well as the audited amount for fiscal 2018.

	Fiscal 2017 Assessment	Fiscal 2018 Audited
Amesbury	\$ 187,769	189,973
Andover	272,392	231,124
Boxford	1,675	13,055
Georgetown	27,343	43,500
Groveland	19,920	55,651
Haverhill	687,036	692,702
Lawrence	939,928	1,010,718
Merrimac	69,372	67,072
Methuen	730,063	762,839
Newbury	11,180	11,854
Newburyport	149,523	161,775
North Andover	217,598	199,981
* North Reading	-	75,795
** Rowley	-	-
Salisbury	69,127	68,799
West Newbury	1,982	6,887
	<u> </u>	<u> </u>
Totals	<u>\$ 3,384,908</u>	<u>3,591,725</u>

* Joined MVRTA 8/1/2017, no service provided in fiscal 2017.

** No service was provided in Rowley in fiscal 2017 and fiscal 2018.