

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, 2020

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2020

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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, 2020, 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, 2020 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 3 through 7, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios and Schedule of Required Contributions on pages 28 and 29 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 30 and 31 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 November 5, 2020, 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
November 5, 2020

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, 2020. 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 27 of the report.

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 6,989,474	\$ 6,812,610
Restricted and noncurrent assets	4,022,678	4,552,870
Capital assets, net	57,854,000	59,876,066
Total assets	<u>68,866,152</u>	<u>71,241,546</u>
Current liabilities	706,173	1,299,626
Restricted and noncurrent liabilities	8,857,128	9,468,735
Long term liabilities	1,301,898	1,442,721
Total liabilities	<u>10,865,199</u>	<u>12,211,082</u>
Net position:		
Invested in capital assets, net of related debt	57,854,000	59,876,066
Restricted	615,373	117,028
Unrestricted	(468,420)	(962,630)
Total net position	<u>\$ 58,000,953</u>	<u>\$ 59,030,464</u>
Operating revenue		
Revenue from transportation	\$ 1,262,964	\$ 1,670,607
Other	1,370,154	1,243,371
Total operating revenues	<u>2,633,118</u>	<u>2,913,978</u>
Operating expenses:		
Transportation services	15,615,289	16,014,217
Other operating expenses	2,184,212	2,034,216
Total operating expenses, excluding depreciation	<u>17,799,501</u>	<u>18,048,433</u>
Depreciation and amortization	4,083,484	4,169,229
Total operating expenses, including depreciation	<u>21,882,985</u>	<u>22,217,662</u>
Operating loss	<u>(19,249,867)</u>	<u>(19,303,684)</u>
Net nonoperating revenue	<u>16,158,938</u>	<u>15,046,880</u>
Loss before capital grants	(3,090,929)	(4,256,804)
Capital grants and contributions	2,061,418	626,234
Change in net position	<u>(1,029,511)</u>	<u>(3,630,570)</u>
Net position:		
Beginning of year	<u>59,030,464</u>	<u>62,661,034</u>
End of year net position	<u>\$ 58,000,953</u>	<u>\$ 59,030,464</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 \$58,000,953. The Authorities total net position increased by \$2,061,418 mainly due to the purchase 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 \$407,643, or 24.40%, due to the decision to stop collecting fares during the pandemic.
- Total operating expenses, excluding depreciation, decreased by \$248,937, or 1.37%, due to adjustments made to the level of services provided as a result of the pandemic..
- Revenues from assessments from member municipalities increased by 2.5% as allowed by law plus the cost of new services.
- Federal operating assistance decreased while state contract assistance increased. Federal capital assistance increased; state capital assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2020 amounted to \$57,854,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions and adjustments during the fiscal include the following:

Transit equipment	\$ 2,024,364
Service equipment	37,054
	<u>\$ 2,061,418</u>

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

At year-end, the Authority had \$8,400,000 of revenue anticipation notes outstanding, the same level 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 operating 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 Operating Assistance currently as opposed to reimbursing.

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

- Replaced one (1) Model Year 2013 supervisory vehicle.
- Continued Design of the Riverbank Stabilization Project.
- Replaced three (3) Model Year 2007 Diesel only buses with three (3) new Model Year 2020 Diesel/Electric Hybrid Buses.

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

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, one Evacuation bus, and two Evacuation vans.

In May 2020, the Advisory Board adopted a FY 2021 Budget to take effect on July 1, 2020. The FY 2019 Annual Audit was accepted by the Advisory Board and posted to the Authority's website. Borrowings were completed to finance operations for FY 2021 and the Five-Year 2021-2025 Capital Plan adopted by the Advisory Board.

In Fiscal Year 2021, the Authority will undertake these Capital Projects:

- Purchase nine (9) new 35' diesel powered transit buses to replace nine (9) Model Year 2009 35' diesel powered buses. Delivery is expected by June 2022.
- Replace one supervisory support vehicle.
- Complete any remaining Design items and initiate Construction Phase of the Riverbank Stabilization Project.

Fixed Route ridership was 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, decreased to 2,046,556 in FY 2018, decreased to 1,952,604 in FY 2019, and decreased to 1,500,617 in FY 2020 due to the pandemic event.

Ridership on the Boston Commuter Bus was 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, decreased to 60,763 in FY 2018, increased to 60,822 in FY 2019, and decreased to 39,049 in FY 2020 due to the pandemic event.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Ridership for Special Services Transportation was 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, increased to 77,962 in FY 2018, increased to 83,514 in FY 2019 and decreased to 66,734 in FY 2020 due to the pandemic event.

COVID-19 Event

In Fiscal Year 2020 the MVRTA was involved, like all transit systems nationally, in an unprecedented pandemic event. Beginning in March 2020, with State issued Executive Orders establishing Phase I, with the shutdown of businesses, virtual/remote communications in the workplace and essential trips only required, the MVRTA responded with the following actions: rear door boarding on all transit buses to limit contact with the bus operator (essentially creating a "free fare" policy); nightly sanitizing of all buses/vans; masks/face coverings required for all bus/van operators as well as for customers; purchase of PPE material (masks, hand sanitizer, disinfectant spray); postings on the MVRTA website, at all transit stations and on all buses/vans advising guidance in hand washing, etc.

Ridership fell 85% on bus and van services. The availability of Federal CARES Act funds in January 2020 assisted in stabilizing agency finances due to the reduction in farebox and other revenues. Looking forward to FY 2021, the return of bus/van ridership will be monitored, the availability of CARES Act funds will continue to stabilize agency finances, full service will return in September, fare collection will resume in September and all PPE purchases and related activities will continue throughout FY 2021.

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

Statement of Net Position

June 30, 2020

Assets and Deferred Outflow of Resources

Current assets:	
Unrestricted cash and cash equivalents (Note 3)	\$ 2,773,297
Receivables from cities and towns	3,742,632
Other receivables	338,911
Prepaid expenses	<u>134,634</u>
Total current assets	<u>6,989,474</u>
Restricted and noncurrent assets:	
Restricted cash and cash equivalents (Note 3)	440,479
Receivables from cities and towns (Note 11)	2,548,594
Noncurrent costs	444,583
Capital assistance receivables	200,127
Capital assets, net (Note 4)	<u>57,854,000</u>
Total restricted and noncurrent assets	<u>61,487,783</u>
Total Assets	<u>68,477,257</u>
Deferred outflow of resources related to pension plans	<u>388,895</u>
Total assets and deferred outflows of resources	<u>\$ 68,866,152</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 322,898
Accrued interest payable	48,641
Bank credit line (Note 7)	200,000
Revenue bond - current portion	<u>134,634</u>
Total current liabilities	<u>706,173</u>
Restricted and noncurrent liabilities:	
Accounts payable	350,756
Compensated absences	106,372
Net pension liability	857,315
Revenue anticipation notes (Note 6)	8,400,000
Revenue bond (Note 8)	<u>444,583</u>
Total restricted and noncurrent liabilities	<u>10,159,026</u>
Total Liabilities	<u>\$ 10,865,199</u>
Net Position	
Invested in capital assets, net of related debt	\$ 57,854,000
Restricted (Note 19)	615,373
Unrestricted (Note 18)	<u>(468,420)</u>
Total net position	<u>\$ 58,000,953</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, 2020

Operating Revenues:	
Passenger fares	\$ 1,262,964
Terminal revenues	1,306,420
Other Income	63,734
	<hr/>
Total operating revenues	2,633,118
Operating Expenses:	
Transit service	12,948,025
Maintenance	2,667,264
Terminal expenses	1,411,144
GASB 68 Pension expense	129,183
General Administration	643,885
	<hr/>
	17,799,501
Depreciation	4,083,484
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Total operating expenses	21,882,985
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Operating loss	(19,249,867)
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	5,000,807
Commonwealth of Massachusetts contract assistance	7,253,008
Local Assessments	4,043,582
Interest income	24,525
Interest expense	(162,984)
	<hr/>
Total non-operating revenues	16,158,938
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Loss before capital grants	(3,090,929)
Capital Grants and Contributions	2,061,418
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Change in net position	(1,029,511)
Net position, beginning of the year	59,030,464
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Net position, end of the year	\$ 58,000,953
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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, 2020

Cash flows from operating activities:	
Passenger fares	\$ 1,262,964
Terminal revenues	1,306,420
Other cash receipts	63,734
Payments to operators	(15,987,642)
Payments to other vendors	(1,926,180)
Payments to employees for services	(385,799)
Net cash used in operating activities	<u>(15,666,503)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	8,400,000
Principal paid on revenue anticipation notes	(8,400,000)
Principal paid on revenue bond	(130,207)
Interest paid on debt	(159,705)
Operating and contract assistance	16,316,769
Net cash provided by non-capital financing activities	<u>16,026,857</u>
Cash flows from capital and related financing activities:	
Capital grants	2,104,413
Purchase of capital assets	(2,061,418)
Net cash used by capital and related financing activities	<u>42,995</u>
Cash flows from investing activities:	
Interest income	24,525
Net cash provided by investing activities	<u>24,525</u>
Net change in cash and cash equivalents	427,874
Cash and cash equivalents, beginning of year	<u>2,786,002</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,213,876</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (19,249,867)
Adjustments:	
Depreciation	4,083,484
Net pension liability	129,183
Changes in assets and liabilities	
Local assessment and other receivables	19,372
Prepaid expenses	(4,418)
Accounts payable and deferrals	(644,257)
Net cash used in operating activities	<u><u>\$ (15,666,503)</u></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, 2020

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, Salisbury and North Reading. 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, 2020

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, 2020 was \$106,372.

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, 2020

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. Implementation of GASB Pronouncements

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

There were no GASB pronouncements required to be implemented in fiscal 2020 that impacted the Authority’s financial statements.

The GASB has issued the following statements which require adoption subsequent to June 30, 2020 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.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements

June 30, 2020

No. 84 – *Fiduciary Activity* – effective FY2021; No. 87 – *Leases* – effective FY2022; No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period* – effective FY2022; No. 90 – *Major Equity Interests* – effective FY2021; No. 91 – *Conduit Equity Obligations* – effective FY2023; No. 92 – *Omnibus 2020* – effective FY2022; No. 93 – *Replacement of Interbank Offered Rates* – effective FY2022; No. 94 – *Private-Public and Public-Public Partnership and Availability Payment Arrangements* – effective FY 2023; No. 96 – *Subscription-Based Information Technology Arrangements* – effective FY2023; No. 97 – *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment on GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32* – effective FY2022

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 2020, 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.

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, 2020 \$-0- of the government's bank balance of \$3,213,876 was exposed to custodial credit risk as uninsured and uncollateralized. This amount was collateralized, in part, by \$3,150,000 in letters of credit provided by the bank.

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Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2020:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	222,857	-	-	222,857
Total capital assets not being depreciated	<u>4,421,391</u>	<u>-</u>	<u>-</u>	<u>4,421,391</u>
Other capital assets:				
Buildings and improvements	62,265,020	-	-	62,265,020
Buses - revenue vehicles	30,293,049	2,024,364	1,754,057	30,563,356
Service equipment	2,548,110	37,054	123,975	2,461,189
Electronic equipment	2,987,801	-	-	2,987,801
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	387,812	-	-	387,812
Total other capital assets at historical cost	<u>98,529,592</u>	<u>2,061,418</u>	<u>1,878,032</u>	<u>98,712,978</u>
Less accumulated depreciation for:				
Buildings and improvements	21,436,958	1,641,400	-	23,078,358
Buses - revenue vehicles	16,895,355	2,179,594	1,754,057	17,320,892
Service equipment	1,592,143	180,935	123,975	1,649,103
Electronic equipment	2,955,010	12,192	-	2,967,202
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	147,651	69,363	-	217,014
Total accumulated depreciation	<u>43,074,917</u>	<u>4,083,484</u>	<u>1,878,032</u>	<u>45,280,369</u>
Other capital assets, net	<u>55,454,675</u>	<u>(2,022,066)</u>	<u>-</u>	<u>53,432,609</u>
Total capital assets, net	<u>\$ 59,876,066</u>	<u>(2,022,066)</u>	<u>-</u>	<u>57,854,000</u>

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.

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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 2020 was \$7,253,008.

Note 6. Revenue Anticipation Notes

At June 30, 2020, the Authority had \$8,400,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 0.9394% and are due June 25, 2021.

	Outstanding at June 30 2019	Issued	Retired	Outstanding at June 30 2020
	<u>2019</u>	<u>Issued</u>	<u>Retired</u>	<u>2020</u>
1.6838% revenue anticipation note	\$ 8,400,000	-	8,400,000	-
0.9394% revenue anticipation note	-	8,400,000	-	8,400,000
	<u>\$ 8,400,000</u>	<u>8,400,000</u>	<u>8,400,000</u>	<u>8,400,000</u>
Total	<u>\$ 8,400,000</u>	<u>8,400,000</u>	<u>8,400,000</u>	<u>8,400,000</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. All required payments with respect to these obligations are guaranteed by the Commonwealth of Massachusetts for the entire duration of the notes.

Note 7. Bank Credit Line

The Authority has a revolving line of credit with TD Bank in the maximum amount of \$2,500,000 that is due on demand. The note contains a variable interest rate. The line also has a fee charge of 1/8% of the unused line. The loan is secured by the parity pledge of the Authority's revenues. The Authority owed \$200,000 at June 30, 2020.

Note 8. 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, 2020 are as follows:

Fiscal Year(s):	<u>Principal</u>	<u>Interest</u>
2021	\$ 134,634	17,302
2022	139,202	12,734
2023	143,924	8,012
2024	148,807	3,129
2025	12,650	11

Note 9. Retirement Plans

General Information about the Pension Plan

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 governed by a five-member Board who establish the policies under which the System operates. Board members also approve all of the System's financial transactions, including the approval of retirement benefits to members. The day-to-day operations of the System are managed by the Executive Director.

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.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The Plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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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.

Any individual in Group 1 or Group 2 whose membership began before January 1, 1978, and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or later, regardless of how many years of credible service he or she has completed.

There are no minimum vesting requirements for individuals in Group 4.

Members in Groups 1 and 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon the completion of 10 years of service and upon reaching the age of 55.

Members in Groups 1 and 2, hired on or after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching the age of 60 (Group 1) or age 55 (Group 2).

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.

Active members contribute between 5% and 9% of their gross compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000. Deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the 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 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. Chapter 32 of the MGL requires Massachusetts retirement systems to adopt funding schedules designed to reduce the unfunded actuarial liability of the system to zero no later than June 30, 2040. The System adopted Section 22d of Chapter 32 in April of 1989. The System's current funding schedule is designed to reduce the unfunded actuarial liability to zero by 2036.

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 are entitled to request a refund of their accumulated total deductions.

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

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

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, 2020 was \$83,528, which approximated its required contribution for the year.

At June 30, 2020, the Authority reported a liability of \$857,315 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. 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, 2019, the Authority's proportion of net pension liability was 0.396 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, 2019.

In the LRS financial statements for the year ended December 31, 2019, 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.

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.

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June 30, 2020

For the year ended June 30, 2020, the Authority recognized pension expense of \$212,711. At June 30, 2020 the Authority reported deferred out flows related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on pension plan investments	<u>\$ 388,895</u>

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

Year ended June 30:		2021	\$ 121,416
		2022	120,760
		2023	125,510
		2024	8,809
		2025	12,400

A. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement that was updated back to December 31, 2019.

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 for the fresh start base
Inflation	3.0 percent
Salary increases	3.75 percent ultimate rate plus 4% steps for the first 5 years of service
Investment rate of return	7.25 percent per year of net investment expenses
Cost of living adjustments	3 percent on the first \$12,000 of a members retirement allowance
Mortality rates	RP-2014 adjusted to 2006 and projected generationally using MP-2019. For members reitred under and Accidental Disability (job-related), 50% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2014 adjusted to 2006 and projected generationally using MP-2019, ages set forward two years.

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The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an actuarial experience study for the period of January 1, 2018 to January 1, 2020.

B. Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The long term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.0%. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target allocation as of January 1, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equities	13.00%	4.29%
International Equities	13.00%	4.39%
Emerging Markets Equities	5.00%	6.54%
Hedged Equities	8.00%	3.61%
Core Bonds	6.00%	0.88%
Short-term Fixed Income	2.00%	0.59%
20+ year Treasury Strips	3.00%	0.00%
TIPS	4.00%	2.00%
Value-Added Fixed Income	8.00%	4.20%
Private equity	13.00%	8.20%
Real Estate	10.00%	3.51%
Timberland	4.00%	4.10%
Portfolio Completion	11.00%	3.22%
Total	100.00%	

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C. Discount Rate

The discount rate used to measure the total pension liability was 7.25 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.

D. 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	6.25%	7.25%	8.25%
Authority's proportionate share of the net pension liability	\$ 1,071,409	\$ 857,315	\$ 676,471

E. Changes in Assumptions and Plan Provisions

Changes in Assumptions

The January 1, 2020 valuation of the System included two changes of assumptions: an update of the mortality assumption and a reduction of the discount rate from 7.50% to 7.25%.

Changes in Plan Provisions

None.

F. 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.

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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, 2020.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2020, expenditures for the Authority's share of health insurance contributions were \$47,159. The Authority purchases insurance for worker's compensation for its employees.

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, 2020, 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, 2020</u>	<u>Unexpended costs</u>
Federal grants	\$ 3,365,103	2,481,626	883,477
State and local sources	748,456	620,409	128,047
Total	<u>\$ 4,113,559</u>	<u>3,102,035</u>	<u>1,011,524</u>

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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 \$1,942,095 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.

C. Fuel Contracts

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

<u>Product</u>	<u>Term</u>	<u>Gallons</u>	<u>Price</u>
Unleaded Gasoline	7/1/20 - 6/30/21	110,000	\$ 1.86
Ultra Low Sulfur Diesel	7/1/20 - 6/30/21	410,000	2.09

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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	\$ 103,134,369
Less: Accumulated Depreciation	45,280,369
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u>\$ 57,854,000</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, 2020 that reserve amounted to \$229,307. 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.

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. As of June 30, 2020 there was no set date for EPA approval of Aerojet Rocketdyne Holdings, Inc. plans.

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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 \$7,253,008; State Capital Assistance of \$804,951; and Local Assessments of \$4,043,582 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$6,291,226 in operating assistance to be billed to the Communities constituting the Authority; and \$64,138 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 \$128,070 during the fiscal year. The Administrator receives family health insurance and contributes 25% of the cost of the premium. Advisory board members and officers do not receive compensation.

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 (\$468,420).

Note 19. Restricted Net Position

In accordance with Section 6(q) of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expense that are both unusual in nature and infrequent in occurrence. The total reserve amount may not exceed 20% of the prior year’s local assessment and the annual funding cannot exceed 3% of the current year’s local assessment. The accumulated aggregate reserve is \$229,307. The amount of \$112,279 was added to the reserve during the current year.

Chapter 161B of the General Laws of the Commonwealth has been amended to allow the Authority to establish a stabilization fund, which can be accessed for capital improvements or to offset an unforeseen and dramatic loss of revenue within a fiscal year and to pay current expenses after implementing all efficiencies and savings possible. The Authority maintains a stabilization fund in the amount of \$386,066 which was added to the reserve in the current year.

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Note 20. COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020 the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 15, 2020, Governor Baker ordered the closure of the physical location of every “non-essential” business for what was an extended period of time. The immediate impact on our operations has been the reduction in fixed route and demand response services as well as the elimination of fares from mid-March. Future potential impacts may include disruptions or restrictions on our employees’ ability to work and impairment of our ability to provide vital transportation services. The future effects of these issues are unknown.

In April of 2020 the Authority was awarded \$16,914,813 in CARES ACT funding through the Federal Transit Administration. This money is available to be drawn down to offset revenue losses as well as cover additional expenses related to potential restrictions placed on the operation of the Authority’s transit services. Activities covered under this grant were retroactive to January 20, 2020 and will continue until spent.

Note 21. Subsequent Events

The Authority has evaluated events subsequent to June 30, 2020 through November 5, 2020, 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
2020	0.3960%	\$ 857,315	\$ 381,227	224.88%	54.14%
2019	0.3680%	\$ 863,513	\$ 283,601	304.48%	48.46%
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, 2019.

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, 2019.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

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
2020 \$	83,528	83,517	\$ 11	\$ 381,227	21.91%
2019 \$	75,178	75,336	\$(158)	\$ 283,601	26.51%
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.

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

Schedule of Net Cost of Service (Unaudited)

Year Ended June 30, 2020

<u>OPERATING COSTS</u>	
MVRTA administrative costs	\$ 643,885
Purchased services	
Fixed route	13,358,924
Demand responsive	2,256,365
Terminal expense	1,411,144
Debt service - interest	162,984
Total operating costs	<u>17,833,302</u>
<u>FEDERAL OPERATING ASSISTANCE</u>	
FTA operating and administrative	5,000,807
Other federal	-
Total federal assistance	<u>5,000,807</u>
<u>REVENUES</u>	
Operating	
Farebox revenue	1,262,964
Other Revenue	
Terminal revenues	1,306,420
Advertising	55,688
Interest income	24,525
Miscellaneous	8,046
Total other revenue	<u>1,394,679</u>
<u>NET OPERATING DEFICIT</u>	10,174,852
<u>ADJUSTMENTS</u>	
Pension settlement	623,393
Extraordinary expenses reserve	112,279
Stabilization Fund	386,066
<u>NET COST OF SERVICE</u>	11,296,590
<u>NET COST OF SERVICE FUNDING</u>	
Local assessments	4,043,582
State contract assistance to be funded	7,253,008
Less: state operating assistance received	7,253,008
Balance requested from the State	-
<u>UNREIMBURSED DEFICIT</u>	-

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, 2020

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2019 as well as the audited amount for fiscal 2020.

	Fiscal 2019 Assessment	Fiscal 2020 Audited
Amesbury	\$ 190,227	198,119
Andover	230,833	251,322
Boxford	15,895	2,655
Georgetown	39,484	42,880
Groveland	63,795	39,432
Haverhill	726,605	829,355
Lawrence	1,064,434	1,187,738
Merrimac	67,977	72,660
Methuen	775,939	863,595
Newbury	16,450	10,099
Newburyport	166,456	165,344
North Andover	187,164	209,030
North Reading	115,785	93,930
* Rowley	-	-
Salisbury	73,278	74,505
West Newbury	8,310	2,918
	<u> </u>	<u> </u>
Totals	<u>\$ 3,742,632</u>	<u>4,043,582</u>

* No service was provided in Rowley in fiscal 2019 and fiscal 2020.