

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, 2022

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2022

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Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

To the Advisory Board
Merrimack Valley Regional Transit authority
Haverhill, Massachusetts

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Merrimack Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate discretely presented component unit of the Authority, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 and required supplementary information on pages 31-32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative*

Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 February 23, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Bruce D. Norling, CPA, P.C.

February 23, 2023
Sudbury, Massachusetts

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, 2022. Please read this discussion and analysis in conjunction with the Authority's audited financial statements which begin on page 10.

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 Noah S. Berger, 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-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 13 through 30 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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Current assets	\$ 10,225,302	\$ 6,426,382
Restricted and noncurrent assets	5,563,045	6,487,666
Capital assets, net	<u>57,210,598</u>	<u>55,285,287</u>
Total assets	<u>72,998,945</u>	<u>68,199,335</u>
Current liabilities	3,010,954	857,646
Restricted and noncurrent liabilities	12,510,568	10,494,252
Long-term liabilities	<u>922,352</u>	<u>1,278,374</u>
Total liabilities	<u>16,443,874</u>	<u>12,630,272</u>
Net position:		
Invested in capital assets, net of related debt	57,210,598	55,285,287
Restricted	-	-
Unrestricted	<u>(655,527)</u>	<u>(573,870)</u>
Total net position	<u>\$ 56,555,071</u>	<u>\$ 54,711,417</u>
Operating revenue		
Revenue from transportation	\$ 561,084	\$ 676,832
Other	<u>1,224,973</u>	<u>1,073,470</u>
Total operating revenues	<u>1,786,057</u>	<u>1,750,302</u>
Operating expenses:		
Transportation services	18,329,343	15,602,998
Other operating expenses	<u>2,304,803</u>	<u>2,252,580</u>
Total operating expenses, excluding depreciation	20,634,146	17,855,578
Depreciation and amortization	<u>4,190,793</u>	<u>4,185,745</u>
Total operating expenses, including depreciation	<u>24,824,939</u>	<u>22,041,323</u>
Operating loss	<u>(23,038,882)</u>	<u>(20,291,021)</u>
Net nonoperating revenue	<u>18,766,432</u>	<u>15,999,826</u>
Loss before capital grants	(4,272,450)	(4,291,195)
Capital grants and contributions	<u>6,116,104</u>	<u>1,617,032</u>
Change in net position	1,843,654	(2,674,163)
Net position:		
Beginning of year	54,711,417	58,000,953
Prior period adjustment	<u>-</u>	<u>(615,373)</u>
End of year net position	<u>\$ 56,555,071</u>	<u>\$ 54,711,417</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 \$56,555,071. The Authority's total net position increased by \$1,843,654 mainly due to the acquisition 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 \$115,748, or 17.10%, due to the decision to stop collecting fares during the fiscal year.
- Total operating expenses, excluding depreciation, increased by \$2,778,568, or 15.56%, due to the return of increased levels of service provided.
- Revenues from assessments from member municipalities increased by 2.5% as allowed by law plus the cost of new services, if any.
- Federal operating assistance and state contract assistance increased. Federal capital assistance and state capital assistance increased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2022 amounted to \$57,210,598 (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 year include the following:

Transit equipment	\$ 4,583,998
Buildings and improvements	267,640
Construction in progress	1,264,466
	<u>\$ 6,116,104</u>

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

At year-end, the Authority had \$10,200,000 of revenue anticipation notes outstanding, an increase of \$1,800,000 over 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:

1. Purchase of New Transit Buses through FTA Grant MA-20222-011 and FY 2022 RTACAP
 - a. Replaced nine (9) new transit buses to replace nine (9) model year 2009 buses. This purchase involves the use of Transit Section 5307 Funds and FY 2022 State RTACAP Funds. Delivered in June 2022. FTA funds \$3,269,223.00, total funding (\$4,458,030)
 - b. Operating Assistance: \$644,945 in FTA funds, total project (\$1,289,890)
 - c. Preventive Maintenance \$2,889,070 in FTA funds, total project (\$3,611,338)
 - d. ADA Operating Assistance \$1,441,305.00 in FTA funds, (\$1,808,632.00 total)
 - e. Short range transit planning \$80,000 in FTA funds, (\$100,000 total)
 - f. Replace Supervisory vehicle \$39,095.00, total funds (\$48,970.00)
 - g. Repairs and equipment for Administrative and Maintenance facility \$545,600 in FTA funds, (\$682,000) total funding
 - h. Riverbank Stabilization Project construction \$2,036,800.00 in FTA funds (\$2,546,000 total)
2. MVRTA FY2022 Flex Grant MA-2022-025 and Transportation Development Credits aka Toll Credits in the amount of 20% match funding
 - a. Repower (10) 2015 and 2016 fixed route buses \$514,196.00
 - b. Upgrade to MVRTA's Intelligent Transportation Systems (ITS) \$756,968.00
3. Project through FTA Grant MA-2022-002 operating assistance, preventative maintenance and recovery funding request for \$5,825,882 in American Rescue Plan Act (ARPA) in support of operations and recovery from the Covid-19 pandemic. Some of the funds were used for the MVRTA rebranding and community outreach to recover ridership due to the Covid-19 pandemic.
4. Award of Community Transit Grant
The MVRTA was awarded the Grant through MassDOT 5310 program (4) Type E2 vans to supplement on-demand services for the disabled and elderly. Delivered June 2022.
5. Awarded April 2022 FTA Competitive FTA grant funds, 100% funding a Route Restoration Planning competitive grant in the amount of \$450,000.
6. Awarded, March 2022, MassDOT competitive funding for the purchase of (18) transit shelters, \$399,000.

In addition to the above FTA grants, the following projects were implemented using Fiscal Year 2022 RTACAP funds:

1. Riverbank Restoration Project, Phase II repair to the rear wall of the bus storage facility
2. Recondition roof on Administration Building
3. Purchased furniture for (8) offices, drivers' ready room, lobby area
4. Purchased new coffee machine and water dispenser for the drivers' ready room

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

During the Fiscal Year, the Authority implemented route redesign for route numbers: 13, 15, 16, 18, 35, 36, 37, 51, 57 and 83. Route redesign was implemented to streamline routes and make them more bidirectional. This allows for more intuitive location of the bus route. We increased headways in Lawrence to 30 minutes all day. Implemented the first direct service to Groveland. The seasonal beach bus was streamlined to travel express via highway from Lawrence.

During the Fiscal Year, the Authority transferred assets supporting NERAC to the board where the Ambubus will be maintained by a partner agency. The Mass Casualty/Evacuation assets consisting of one Evacuation bus, and two Evacuation vans were decommissioned after (18) years of service.

In May 2021, the Advisory Board adopted the FY 2022 Budget to take effect on July 1, 2021. The FY 2021 Annual Audit was accepted by the Advisory Board and posted to the Authority's website. The Five-Year 2023-2027 Capital Plan was adopted by the Advisory Board. The annual Revenue Anticipation Note (RAN) borrowing for Fiscal Year 2023 was completed in June 2022.

In Fiscal Year 2023, the Authority will undertake these Capital Projects:

1. Replace one (1) Model Year 2017 Supervisory Vehicle.
2. MVRTA Headquarters facility repairs.
3. Complete Riverbank Stabilization Project, construction should wrap in late November 2022 with monitoring required by our permit to be complete in two years.
4. Replace eight (8) Model Year 2011 Transit Buses (6 Clean Diesel, 2 Diesel/Electric Hybrid); using Flex-funding.
5. Upgrade Automated Stop and Automated Vehicle Location software/hardware on all buses. Real-time information panels will be added to our station amenities.
6. Facility upgrades and planning for implementing the McGovern Center in Lawrence as our transit hub.
7. Continuation of service rebranding projects including bus wraps and on street signage. Route replanning will continue. In certain locations will implement transit signal priority for bus traffic in and out of main transfer facilities.

Fixed Route ridership was 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 in FY 2021 was 994,964, or a +66% post-pandemic recovery rate, ridership was 1,197,553 in FY 2022. MVRTA ridership continues to recover.

Ridership on the Boston Commuter Bus was 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. For both Route 99 Methuen//Lawrence/Andover and Route 98 North Andover, there was zero ridership for the period 3/2020 through 6/2021 as these two routes did not operate. Service for Route 99 resumed on a limited schedule on July 6, 2021 and was cancelled due to poor performance on July 1, 2022. The commuter bus service has been terminated as of the same date. Ridership for FY 2022 was 3,347.

Ridership for Special Services Transportation was 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; ridership in FY 2021 was 43,861, or a +65% post-pandemic recovery rate, ridership was 62,767 in FY 2022.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

All MVRTA services are now fare-free as of March 1, 2022. Removing financial costs of processing fares has been beneficial for our bottom line. Especially noted is higher ridership and customer satisfaction.

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

Statement of Net Position
June 30, 2022

Assets and Deferred Outflow of Resources

Current assets:	
Cash and cash equivalents (Note 3)	\$ 3,268,646
Receivables (Note 4)	6,812,732
Prepaid expenses	143,924
Total current assets	<u>10,225,302</u>
Restricted and noncurrent assets:	
Cash and cash equivalents (Note 3)	1,049,252
Capital assistance receivables (Note 4)	1,377,615
Total restricted assets	<u>2,426,867</u>
Receivables (Note 4)	2,869,353
Noncurrent costs	161,472
Capital assets, net (Note 5)	57,210,598
Total restricted and noncurrent assets	<u>62,668,290</u>
Total Assets	<u>72,893,592</u>
Deferred outflow of resources related to pension plans	<u>105,353</u>
Total assets and deferred outflows of resources	<u>\$ 72,998,945</u>

Liabilities

Current liabilities:	
Accounts payable and accrued expenses	\$ 1,112,945
Accrued interest payable	104,085
Bank credit line (Note 8)	1,650,000
Revenue bond - current portion	143,924
Total current liabilities	<u>3,010,954</u>
Restricted and noncurrent liabilities:	
Accounts payable	1,355,557
Compensated absences	80,438
Unearned revenue	874,573
Total liabilities payable from restricted assets	<u>2,310,568</u>
Revenue anticipation notes (Note 7)	10,200,000
Revenue bond (Note 10)	161,472
Net pension liability	760,880
Total restricted and noncurrent liabilities	<u>13,432,920</u>
Total Liabilities	<u>\$ 16,443,874</u>

Net Position

Invested in capital assets, net of related debt	\$ 57,210,598
Restricted	-
Unrestricted (Note 20)	(655,527)
Total net position	<u>\$ 56,555,071</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, 2022

Operating Revenues:	
Passenger fares	\$ 561,084
Terminal revenues	1,170,365
Other Income	54,608
	<hr/>
Total operating revenues	1,786,057
	<hr/>
Operating Expenses:	
Transit service	14,681,973
Maintenance	3,647,370
Terminal expenses	1,351,362
General Administration	871,784
GASB 68 Pension expense	81,657
	<hr/>
	20,634,146
Depreciation	4,190,793
	<hr/>
Total operating expenses	24,824,939
	<hr/>
Operating loss	(23,038,882)
	<hr/>
Nonoperating revenues (expense):	
Operating assistance grants	
Federal	6,822,345
Commonwealth of Massachusetts	7,765,512
Local Assessments	4,248,289
Interest income	2,109
Interest expense	(71,823)
	<hr/>
Total non-operating revenues	18,766,432
	<hr/>
Loss before capital grants	(4,272,450)
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Capital Grants and Contributions:	
Federal	4,892,883
Commonwealth of Massachusetts	1,223,221
	<hr/>
Total capital contributions	6,116,104
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Change in net position	1,843,654
Net position, beginning of year	54,711,417
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Net position, end of year	\$ 56,555,071
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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, 2022

Cash flows from operating activities:	
Passenger fares	\$ 561,084
Terminal revenues	1,170,365
Other cash receipts	133,345
Payments to operators	(17,675,334)
Payments to other vendors	(1,784,902)
Payments to employees for services	(473,788)
Net cash used in operating activities	<u>(18,069,230)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	10,200,000
Principal paid on revenue anticipation notes	(8,400,000)
Principal from credit line advances	2,850,000
Payments on credit line	(1,400,000)
Principal paid on revenue bond	(139,196)
Interest paid on debt	(67,921)
Operating and contract assistance	16,202,913
Net cash provided by non-capital financing activities	<u>19,245,796</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(6,116,104)
Capital contributions	
United States Department of Transportation	4,832,987
Commonwealth of Massachusetts	1,608,930
Net cash used by capital and related financing activities	<u>325,813</u>
Cash flows from investing activities:	
Interest income	2,109
Net cash provided by investing activities	<u>2,109</u>
Change in cash and cash equivalents	1,504,488
Cash and cash equivalents, beginning of year	<u>1,764,158</u>
Cash and cash equivalents, end of year	<u>\$ 3,268,646</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (23,038,882)
Adjustments:	
Depreciation	4,190,793
Pension expense	81,657
Changes in assets and liabilities	
Receivables, net	(423,038)
Other assets	466,231
Accounts payable and accrued expenses	654,009
Net cash used in operating activities	<u>\$ (18,069,230)</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, 2022

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

(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2022

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, 2022 was \$80,438.

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.

J. Unearned Revenue

Unearned revenue arises when assets are recorded before eligibility requirements have been met.

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K. 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.

L. 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.

M. 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.

N. Implementation of GASB Pronouncements

During fiscal 2022, the following GASB Pronouncements were adopted and implemented, when necessary, by the Authority. The adoption of these statements did not have a material impact on the Authority’s financial statements.

- No. 87 – *Leases*
- No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*
- No. 92 – *Omnibus 2020*
- No. 93 – *Replacement of interbank offered rates*
- No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a suspension of GASB Statement No. 32*

The GASB has issued the following statements which require adoption subsequent to June 30, 2022 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.

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Statement No.		Adoption Required in Fiscal Year
91	<i>Conduit Debt Obligations</i>	2023
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
99	<i>Omnibus 2022</i>	2023/2024
100	<i>Accounting Changes and Error Corrections</i>	2024
101	<i>Compensated Absences</i>	2025

O. 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 plan's 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.

P. Deferred Outflows/Inflows of Resources

The Authority accounts for certain transactions that result in consumption or acquisition in one period that are applicable to future periods as deferred outflows and inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2022, the Authority has reported deferred outflows that are related to its pension plan.

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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 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, 2022 \$29,536 of the Authority’s bank balance of \$4,429,536 was exposed to custodial credit risk as uninsured and uncollateralized. This amount was collateralized, in part, by \$3,900,000 in letters of credit provided by the bank and FDIC insurance.

Note 4. Receivables

The receivables for operating and capital assistance are disaggregated as follows:

United States Department of Transportation		
	Direct federal grants	
	CARES Act grant	\$ 2,416,602
Commonwealth of Massachusetts		
	Operating grants	
	Local operating assistance billed by the State to the communities constituting the Authority and paid by the State to the Authority	6,930,885
Other		334,598
	Total Receivables	9,682,085
	Less noncurrent receivables	2,869,353
	Current Receivables	<u>\$ 6,812,732</u>
Capital assistance		
	Federal grants	792,294
	Commonwealth of Massachusetts	585,321
	Total Capital Grant Receivables	<u>\$ 1,377,615</u>

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Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2022:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	234,851	1,264,466	-	1,499,317
Total capital assets not being depreciated	<u>4,433,385</u>	<u>1,264,466</u>	<u>-</u>	<u>5,697,851</u>
Other capital assets:				
Buildings and improvements	62,718,284	267,640	-	62,985,924
Buses - revenue vehicles	30,612,170	4,583,998	1,570,297	33,625,871
Service equipment	2,505,855	-	34,310	2,471,545
Electronic equipment	2,987,801	-	986,255	2,001,546
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	401,496	-	-	401,496
Total other capital assets at historical cost	<u>99,273,406</u>	<u>4,851,638</u>	<u>2,590,862</u>	<u>101,534,182</u>
Less accumulated depreciation for:				
Buildings and improvements	24,709,604	1,671,169	-	26,380,773
Buses - revenue vehicles	18,564,148	2,296,589	1,570,297	19,290,440
Service equipment	1,833,496	152,160	34,310	1,951,346
Electronic equipment	2,979,395	2,460	986,255	1,995,600
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	287,061	68,415	-	355,476
Total accumulated depreciation	<u>48,421,504</u>	<u>4,190,793</u>	<u>2,590,862</u>	<u>50,021,435</u>
Other capital assets, net	<u>50,851,902</u>	<u>660,845</u>	<u>-</u>	<u>51,512,747</u>
Total capital assets, net	<u>\$ 55,285,287</u>	<u>1,925,311</u>	<u>-</u>	<u>57,210,598</u>

Note 6. Grants

Under various sections of the Bipartisan Infrastructure Law, 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 2022 was \$7,765,512.

Note 7. Revenue Anticipation Notes

At June 30, 2022, the Authority had \$10,200,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 2.733% and are due June 23, 2023.

		Outstanding at June 30 2021	Issued	Retired	Outstanding at June 30 2022
0.3183% revenue anticipation note		\$ 8,400,000	-	8,400,000	-
2.2733% revenue anticipation note		-	10,200,000	-	10,200,000
	Total	<u>\$ 8,400,000</u>	<u>10,200,000</u>	<u>8,400,000</u>	<u>10,200,000</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. All required payments with respect to these obligations are guaranteed by the Commonwealth of Massachusetts for the entire duration of the notes.

Note 8. 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 \$1,650,000 at June 30, 2022.

Note 9. Unearned Revenue: Extraordinary Reserve and Stabilization Fund

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses 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 of \$229,307 (which represents approximately 5.40% of the applicable local assessment of \$4,248,289) is included in unearned revenue in the accompanying statement of net position.

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. The Authority maintains a stabilization fund in the amount of \$386,066 which is included in unearned revenue in the accompanying statement of net position.

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Note 10. 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.

The principal and interest maturities of the bonds as of June 30, 2022 are as follows:

	Principal	Interest
Fiscal Year(s):		
2023	\$ 143,924	8,012
2024	148,807	3,129
2025	12,665	11

Note 11. 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.

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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 through 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.

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 difference 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.

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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.

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, 2022 was \$112,966, which approximated its required contribution for the year.

At June 30, 2022, the Authority reported a liability of \$760,880 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. 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, 2021, the Authority's proportion of net pension liability was 0.49 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, 2021.

In the LRS financial statements for the year ended December 31, 2021, 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, 2022, the Authority recognized pension expense of \$194,623. At June 30, 2022 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	\$ 105,353

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

Year ended June 30:	2023	\$ 119,906
	2024	(9,380)
	2025	(2,256)
	2026	(2,617)
	2027	(300)

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A. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement that was rolled forward to December 31, 2021.

Actuarial cost method	Individual entry age normal cost method
Amortization method	Payments increase at 3.67 percent
Asset valuation method	Market value of assets as of the valuation date
Inflation	2.4 percent
Projected salary increases	3.75% - 7.75% based on service
Investment rate of return	7.00 percent per year of net investment expenses
Mortality rates	Based on the RP-2014 Blue Collar Mortality Table with full generational mortality improvement using Scale MP-2020.
Disabled mortality rates	Based on the RP-2014 Blue Collar Mortality Table set forward one year with full generational mortality improvement using Scale MP-2020.

The actuarial assumptions used in the January 1, 2022 valuation were based on the results of an actuarial experience study for the period of January 1, 2020 to January 1, 2022.

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.

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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. 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, 2022 are summarized in the following table:

		Long-term
	Target	Expected Real
Asset Class	Allocation	Rate of Return
Global Equity	38.00%	4.22%
Core Fixed Income	15.00%	0.70%
Value-Added Fixed Income	8.00%	4.00%
Private Equity	15.00%	7.70%
Real Estate	10.00%	3.60%
Timberland	4.00%	4.20%
Portfolio Completion Strategies	10.00%	3.00%
Total	<u>100.00%</u>	

C. Discount Rate

The discount rate used to measure the total pension liability was 7.00 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.

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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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Authority's proportionate share of the net pension liability	\$ 1,038,094	\$ 760,880	\$ 526,620

E. Changes in Assumptions and Plan Provisions

Changes in Assumptions

The discount rate decreased from 7.25% to 7.00% and the mortality improvement scale has been updated.

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.

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 12. Post-retirement health benefits

The Advisory Board voted to establish a post-retirement health insurance plan. The plan is restricted to individuals that retire after a minimum of 25 years of service. The contribution is limited to 75% of the cost of the retiree’s post-retirement medical insurance premium. The Authority’s level of contribution has been set at an established level and is not subject to adjustment.

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Note 13. 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, 2022.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority contributes 75% of the premium cost for employees. In 2022, expenditures for the Authority’s share of health insurance contributions were \$54,617. The Authority purchases insurance for worker’s compensation for its employees.

Note 14. 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, 2022, capital projects costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources.

		Expenditures	
	Approved	through	Unexpended
Funding Source	Project Costs	June 30, 2022	Costs
Federal grants	\$ 10,927,545	4,053,825	6,873,720
State and local sources	3,135,459	1,853,857	1,281,602
Total	<u>\$ 14,063,004</u>	<u>5,907,682</u>	<u>8,155,322</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 Bipartisan Infrastructure Law. 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.

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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 August 1, 2022. Annual fees start at \$253,584.

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 \$2,344,135 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:

Product	Term	Gallons	Price
Unleaded Gasoline	1/1/22 - 6/30/22	50,000	\$ 2.02
Ultra Low Sulfur Diesel	1/1/22 - 6/30/22	500,000	2.15

Note 15. 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	\$ 107,232,033
Less: Accumulated Depreciation	50,021,435
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u>\$ 57,210,598</u>

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June 30, 2022

Note 16. Transit Service

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property were performed by First Transit under the terms of an agreement whereby First Transit operated 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 operated the fixed route service and Special Transportation Services (STS) which operated the elderly and handicapped services. In return, the Authority agreed to pay First Transit a management fee and to reimburse MVATC and STS for all costs and expenses which were reasonable and necessary for the efficient operation of the services.

Note 17. The Lawrence Gateway Surface Parking Facility

The parking area has been operational since November 2010. The Authority is waiting for Aerojet Rocketdyne, Inc. to complete and receive approval from the US EPA on Aerojet's final plan for long term compliance monitoring. Once this plan is approved, the MVRTA and Aerojet will complete the process for the Authority to take title to the parking area land. As of June 30, 2022 there was no set date for EPA approval of Aerojet's compliance plans.

Note 18. 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 \$7,765,512; State Capital Assistance of \$2,572,995; and Local Assessments of \$4,248,289 to be paid to the Authority by the Commonwealth. Related-party receivables consist of \$6,930,885 in operating assistance to be billed to the Communities constituting the Authority; and \$386,331 of State Capital Assistance.

Note 19. 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 \$142,683 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 20. 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 (\$655,527) by GASB 68.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements

June 30, 2022

Note 21. COVID-19

During fiscal 2020 the Coronavirus epidemic significantly affected the Authority’s operations. Most brokerage and demand responsive services were discontinued, fare revenues were not collected and ridership decreased significantly. MVRTA was required to incur expenses for personal protection equipment, barriers and disinfectant-related products and cleaning services. In response to the effects of COVID-19, the Coronavirus Aid Relief, and Economic Security Act (CARES Act) was signed into law. The purpose of that law was to help the Authority fully fund their revenue losses and cover the additional expenses require to protect employees and riders. The funding requires no local match.

In December of 2020 the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) was enacted to provide additional assistance. Funding is intended to support eligible expenses with priority given to payroll and operational needs. The grant awarded was for \$299,747.

In March of 2021 the American Rescue Plan Relief Act of 2021 (ARP) was enacted to provide ongoing assistance to ensure the ability of the Authority to provide services well into the future. The grant will assist with operating expenses related to maintaining day-to-day operations, cleaning and sanitization, combating the spread of pathogens on transit systems and maintaining critical staffing levels. The award to MVRTA was in the amount of \$5,825,882.

	Grant Amount	Current Expenditures	Prior Expenditures	Remaining Balance
Cares - Boston	\$ 16,914,813	6,447,331	4,828,818	5,638,664
CRRSAA	299,747	299,747	-	-
American Rescue Plan	5,825,882	75,267	-	5,750,615
	<u>\$ 23,040,442</u>	<u>6,822,345</u>	<u>4,828,818</u>	<u>11,389,279</u>

Note 22. Subsequent Events

The Authority has evaluated events subsequent to June 30, 2022 through February 23, 2023, 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.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

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	Liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of total pension liability
2022	0.4900%	\$ 760,880	\$ 406,663	187.10%	69.03%
2021	0.4900%	\$ 972,984	\$ 381,227	255.22%	58.89%
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, 2021.

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, 2021.

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
2022	\$ 112,966	112,966	\$ -	\$ 406,663	27.78%
2021	\$ 107,259	107,259	\$ -	\$ 381,227	28.14%
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
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Schedule of Net Cost of Service (Unaudited)

Year Ended June 30, 2022

<u>OPERATING COSTS</u>	
MVRTA administrative costs	\$ 871,784
Purchased services	
Fixed route	15,836,757
Demand responsive	2,492,586
Terminal expense	1,351,362
Debt service - interest	71,823
Total operating costs	<u>20,624,312</u>
<u>FEDERAL OPERATING ASSISTANCE</u>	
FTA operating and administrative	6,822,345
Other federal	-
Total federal assistance	<u>6,822,345</u>
<u>REVENUES</u>	
Operating	
Farebox revenue	561,084
Other Revenue	
Terminal revenues	1,170,365
Advertising	54,065
Interest income	2,109
Miscellaneous	543
Total revenues	<u>1,788,166</u>
<u>NET OPERATING DEFICIT</u>	12,013,801
<u>ADJUSTMENTS</u>	-
<u>NET COST OF SERVICE</u>	12,013,801
<u>NET COST OF SERVICE FUNDING</u>	
Local assessments	4,248,289
State contract assistance to be funded	7,765,512
Less: state operating assistance received	7,765,512
Balance requested from the State	-
<u>UNREIMBURSED DEFICIT</u>	-

See accompanying independent auditors' report

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Schedule of Allocation of Local Assessments (Unaudited)

June 30, 2022

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2021 as well as the audited amount for fiscal 2022.

	Fiscal 2021	Fiscal 2022
	Assessment	Audited
Amesbury	\$ 203,072	208,149
Andover	257,605	264,045
Boxford	2,721	2,789
Georgetown	43,952	45,051
Groveland	40,418	41,428
Haverhill	850,089	871,341
Lawrence	1,217,431	1,247,867
Merrimac	74,477	76,339
Methuen	885,185	907,315
Newbury	10,351	10,610
Newburyport	169,478	173,715
North Andover	214,256	219,612
North Reading	96,278	98,685
* Rowley	-	-
Salisbury	76,368	78,277
West Newbury	2,991	3,066
Totals	<u>\$ 4,144,672</u>	<u>4,248,289</u>
* No service was provided in Rowley in fiscal 2021 and fiscal 2022.		