

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

Basic Financial Statements, Supplementary Data
June 30, 2016

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

Table of Contents

Management's Discussion and Analysis	i – ix
Independent Auditors' Report	1-3
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-24
Required Supplementary Information –	
Schedule of the Authority's Proportionate Share of the Net Pension Liability	25
Schedule of Pension Contributions	26
Retiree Health Plan Funding Progress	27
Schedule 1: Statement of Costs	28
Schedule 2: Statement of Costs – Calculation Worksheet and Supplementary Data	29
Schedule 3: Schedule of Local (Towns) Funding	30
Schedule 4: Schedule of Compensation Required By Massachusetts Executive Office For Administration and Finance	31

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

The Reporting Entity

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

Overview of the Financial Statements

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

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

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

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

**MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016**

Condensed Financial Information

Statement of Net Position
(000 omitted)

	2016	2015	2014
Current assets	\$ 3,530	\$ 3,350	\$ 3,593
Capital assets, net	10,779	10,185	9,342
Restricted and noncurrent assets	2,344	2,264	453
Total assets	<u>16,653</u>	<u>15,799</u>	<u>13,388</u>
Deferred outflows of resources	46	2	
Total assets and deferred outflows of resources	<u>16,699</u>	<u>15,801</u>	<u>13,388</u>
Restricted and noncurrent liabilities	3,700	3,457	2,080
Current liabilities	207	199	179
Total liabilities	<u>3,907</u>	<u>3,656</u>	<u>2,259</u>
Deferred inflows of resources			
Total liabilities and deferred inflows of resources	<u>3,907</u>	<u>3,656</u>	<u>2,259</u>
Net position			
Invested in capital assets	10,779	10,185	9,342
Restricted	282	143	118
Unrestricted	1,731	1,817	1,669
Total net position	<u>\$ 12,792</u>	<u>\$ 12,145</u>	<u>\$ 11,129</u>

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

	2016	2015	2014
Operating revenues			
Transportation services	\$ 1,894	\$ 1,658	\$ 1,522
Operating expenses			
Cost of transportation service, maintenance and administration	5,045	4,731	4,544
Depreciation	1,419	1,292	1,153
	<u>6,464</u>	<u>6,023</u>	<u>5,697</u>
Operating loss	<u>(4,570)</u>	<u>(4,365)</u>	<u>(4,175)</u>
Nonoperating revenues and (expenses)			
Operating assistance	3,201	3,239	4,779
Other nonoperating	(129)	(147)	(26)
	<u>3,072</u>	<u>3,092</u>	<u>4,753</u>
Income (loss) before capital contribution	<u>(1,498)</u>	<u>(1,273)</u>	<u>578</u>
Capital contributions	2,145	2,289	771
	<u>2,145</u>	<u>2,289</u>	<u>771</u>
Change in net position	647	1,016	1,349
Net position			
Beginning of year			
As previously reported	12,145	11,129	10,025
Cumulative effect - change in accounting principle			(245)
As restated	<u>12,145</u>	<u>11,129</u>	<u>9,780</u>
End of year	<u>\$ 12,792</u>	<u>\$ 12,145</u>	<u>\$ 11,129</u>

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2016 and 2015

The assets of the Authority exceeded its liabilities at June 30, 2016 by \$12,792,000.

Total current assets increased in 2016 versus 2015 by \$180,000 (5.4%). This was caused primarily by the addition of the prepaid fuel hedge account in 2016.

Total net capital assets increased in 2016 versus 2015 by \$594,000 (5.8%). This was caused by capital acquisitions of \$2,145,000 less removals and depreciation. These acquisitions were funded by Federal and State capital grants.

The restricted and noncurrent assets increased in 2016 versus 2015 by \$80,000 (3.5%). This was caused by an increase in receivable for capital assistance of \$1,331,000, net against decreases in restricted cash and equivalents of \$1,143,000 and receivable for operating assistance of \$108,000.

The deferred outflows of resources related to pensions increased to \$46,000.

The Authority's total assets increased in 2016 versus 2015 by \$854,000 (5.4%).

Total debt increased by \$251,000 (6.9%). This was caused primarily by an increase in the other postemployment benefits liability related to a new actuarial valuation.

The Authority's net position increased by \$647,000 (5.3%) during the current year. This was caused by operating revenues of \$1,894,000 plus nonoperating revenue of \$3,072,000 and capital contributions of \$2,145,000, less operating expenses of \$6,464,000.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

Revenues

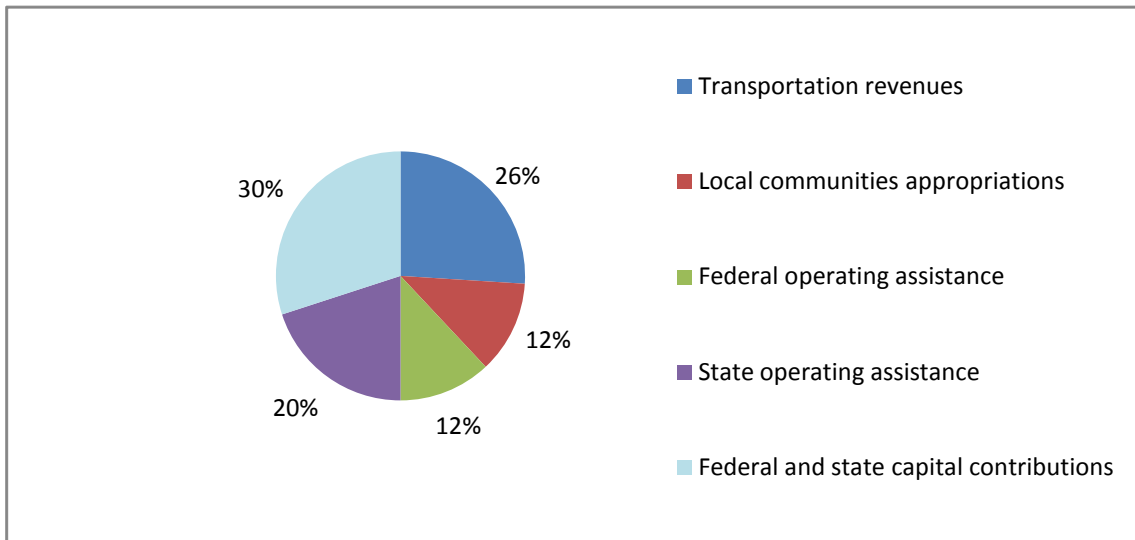
Total operating revenue increased in 2016 versus 2015 by \$236,000 (14.2%). This was primarily caused by increases in fares and ridership.

Nonoperating revenue decreased in 2016 versus 2015 by \$20,000 (0.6%).

Total capital contributions decreased in 2016 versus 2015 by \$144,000 (6.3%). This was caused primarily by decreases in Federal and State capital grant funding.

The change in net position decreased in 2016 versus 2015 by \$369,000 (36.3%). This was caused primarily by an increase in the operating loss netted against a decrease in nonoperating assistance and capital contributions.

Revenues by source:



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

Operating Expenses

Total operating expenses increased in 2016 versus 2015 by \$441,000 (7.3%). This was caused by an increase in the cost of transportation service, maintenance, administration and depreciation expense.

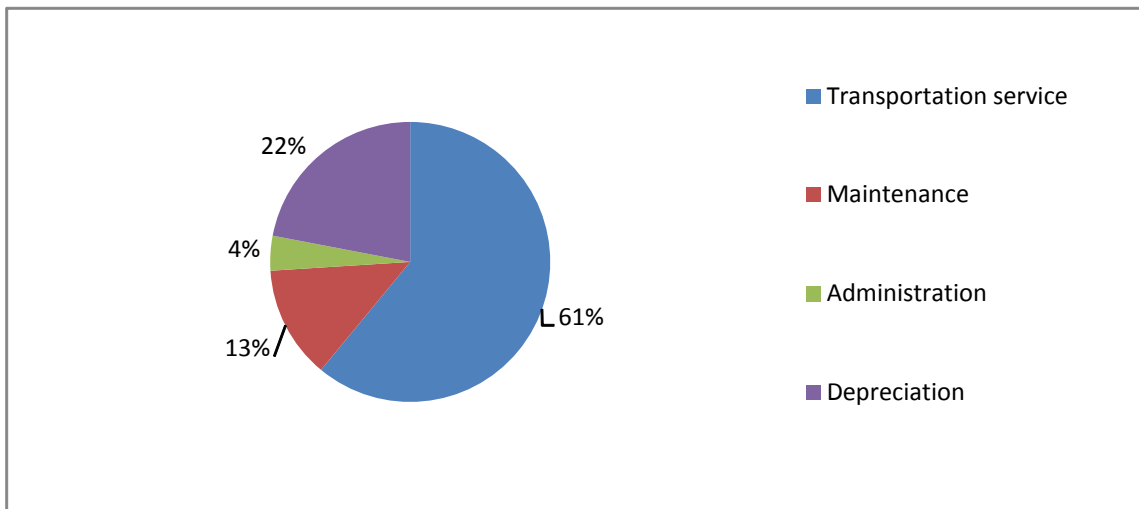
The cost of transportation service increased in 2016 versus 2015 by \$227,000 (6.1%). This was caused primarily by an increase in service provided.

Maintenance expense and administrative expense increased in 2016 versus 2015 by \$87,000 (8.9%).

Depreciation expense increased in 2016 versus 2015 by \$127,000 (9.8%). This was primarily attributable to the addition of a full years' depreciation on 2015 acquisitions and half years' depreciation on 2016 acquisitions.

The Authority's operating loss increased in 2016 versus 2015 by \$205,000 (4.7%).

Expenses by source:



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2015 and 2014

The assets of the Authority exceeded its liabilities at June 30, 2015 by \$12,145,000.

The Authority's net position increased by \$1,016,000 (9.1%) during the current year. This was due to operating revenues of \$1,658,000, nonoperating revenues (primarily grants) of \$3,092,000 and capital contributions of \$2,289,000, less operating expense of \$6,023,000.

The Authority's total assets increased in 2015 versus 2014 by \$2,413,000 (18.0%).

Total current assets decreased in 2015 versus 2014 by \$241,000 (6.7%). This was caused primarily by a decrease in receivables for operating assistance.

The restricted and noncurrent assets increased in 2015 versus 2014 by \$1,811,000 (399.8%). This was caused by increases in restricted cash and equivalents of \$934,000, receivable for capital assistance of \$382,000 and receivable for operating assistance of \$495,000.

Total net capital assets increased in 2015 versus 2014 by \$843,000 (9.0%). This was caused by capital acquisitions of \$2,289,000 net of removals and depreciation. These acquisitions were funded by Federal and State capital grants.

Total debt increased by \$1,397,000 (60.3%). This was caused primarily by an increase in accounts payable related to the acquisition of capital assets less other decreases.

The cumulative effect of a change in accounting principle of \$245,000 was recorded in 2014. This was done to implement GASB No. 68. It was related to recording the net pension liability.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

Revenues

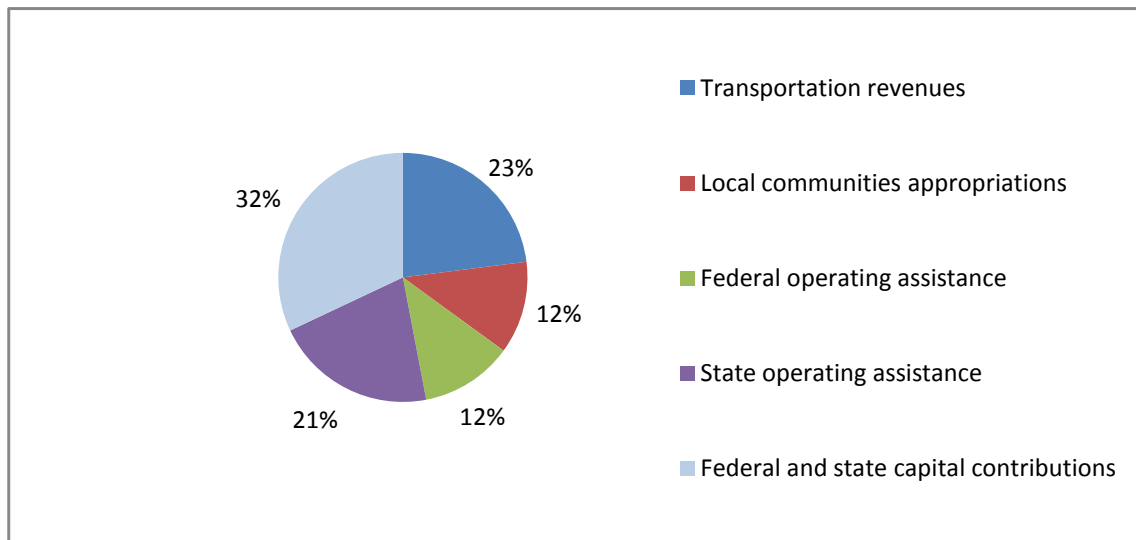
Total operating revenue increased in 2015 versus 2014 by \$136,000 (8.9%). This was caused by increases in fares and ridership. In order to ensure that future cost of service was adequately funded, the Authority approved various fare increases that were effective January 1, 2015.

Nonoperating revenue decreased in 2015 versus 2014 by \$1,661,000 (34.9%). This was caused by the fact that state contract assistance was higher in 2014, due to a forward funding initiative.

Total capital contributions increased in 2015 versus 2014 by \$1,518,000 (196.9%). This was caused primarily by increases in Federal and State capital grant funding.

The change in net position decreased in 2015 versus 2014 by \$333,000 (24.7%). This was caused primarily by a decrease in operating assistance.

Revenues by source:



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

Operating Expenses

Total operating expenses increased in 2015 versus 2014 by \$326,000 (5.7%). This was caused by an increase in the cost of transportation service, maintenance, administration and depreciation expense.

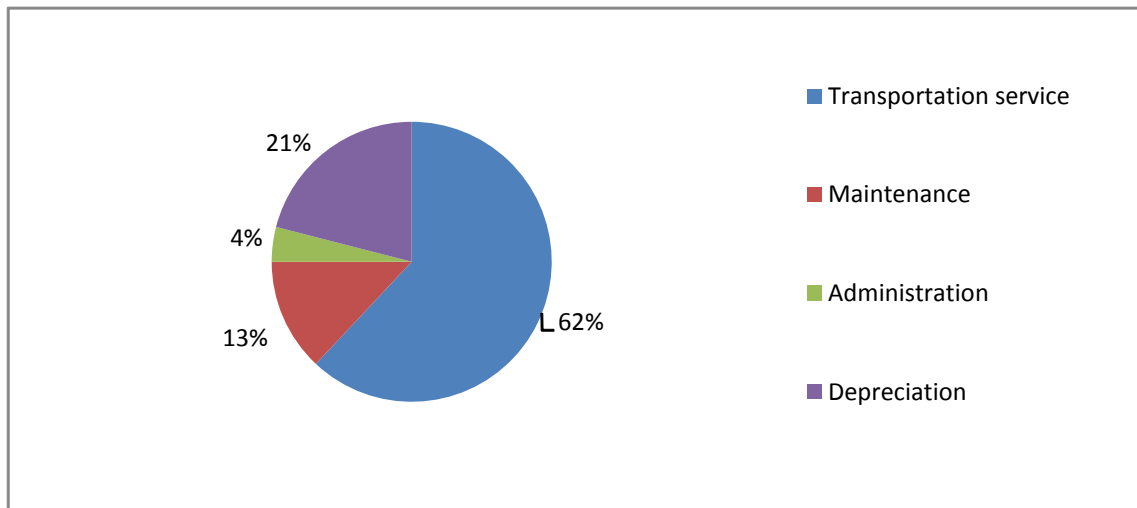
The cost of transportation service increased in 2015 versus 2014 by \$80,000 (2.1%). This was caused primarily by an increase in service provided.

Maintenance expense and administrative expense increased in 2015 versus 2014 by \$107,000 (12.2%).

Depreciation expense increased in 2015 versus 2014 by \$139,000 (12.0%). This was primarily attributable to the addition of a full years' depreciation on 2014 acquisitions and half years' depreciation on 2015 acquisitions.

The Authority's operating loss increased in 2015 versus 2014 by \$190,000 (4.5%).

Expenses by source:



MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2016

Capital Assets

The Authority's capital assets as of June 30, 2016, amounted to \$10,779,000, net of accumulated depreciation. The Authority's investment in capital assets includes buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2016, the Authority invested \$2,145,000 in various capital assets. Capital asset additions were funded through Federal and State capital grants. During the current year, the most significant capital asset event was the acquisition of vehicles and related equipment of \$1,855,000.

More detailed information regarding the Authority's capital asset activities for 2016 can be found in the notes to the financial statements (Note 7).

Revenue Anticipation Note

The Authority had a revenue anticipation note of \$1,500,000 at the end of 2016 and 2015.

Economic Factors

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Farebox revenue	\$1,368,000	\$1,502,000	\$1,737,000
Other revenue	154,000	156,000	157,000

Contacting the Authority's Financial Management

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

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

The Advisory Board
Martha's Vineyard Regional Transit Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Martha's Vineyard Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and the required supplementary information schedules on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, included in the accompanying schedules on pages 28 through 31, is presented for purposes of additional analysis and is not a required part of the basic financial statements. These

supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2016 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Bruce D. Norling, CPA, P.C.

October 5, 2016

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

Statement of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 959,025	\$ 1,165,492
Receivable for operating assistance	1,797,504	1,773,403
Other current assets	488,750	411,299
Prepaid fuel hedge	284,966	
Total current assets	<u>3,530,245</u>	<u>3,350,194</u>
Restricted and noncurrent assets		
Restricted assets		
Cash and cash equivalents	168,288	1,311,369
Receivable for capital assistance	1,788,713	456,985
Total restricted assets	<u>1,957,001</u>	<u>1,768,354</u>
Receivable for operating assistance	387,325	495,342
Capital assets, net	<u>10,778,886</u>	<u>10,185,325</u>
Total restricted and noncurrent assets	<u>13,123,212</u>	<u>12,449,021</u>
Total assets	<u>16,653,457</u>	<u>15,799,215</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension	<u>45,785</u>	<u>2,296</u>
Total assets and deferred outflows of resources	<u>16,699,242</u>	<u>15,801,511</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expense	<u>207,224</u>	<u>199,505</u>
Total current liabilities	<u>207,224</u>	<u>199,505</u>
Restricted and noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable and accrued expense	<u>1,674,899</u>	<u>1,625,469</u>
Total liabilities payable from restricted assets	<u>1,674,899</u>	<u>1,625,469</u>
Other postemployment benefits	257,178	86,246
Net pension liability	267,629	245,465
Revenue anticipation notes	<u>1,500,000</u>	<u>1,500,000</u>
Total restricted and noncurrent liabilities	<u>3,699,706</u>	<u>3,457,180</u>
Total liabilities	<u>3,906,930</u>	<u>3,656,685</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension	<u> </u>	<u> </u>
Total liabilities and deferred inflows of resources	<u>3,906,930</u>	<u>3,656,685</u>
NET POSITION		
Invested in capital assets	10,778,886	10,185,325
Restricted	282,102	142,885
Unrestricted	<u>1,731,324</u>	<u>1,816,616</u>
Total net position	<u>\$ 12,792,312</u>	<u>\$ 12,144,826</u>

See accompanying notes to financial statements

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

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Transportation services	\$ 1,894,164	\$ 1,657,823
Operating expenses		
Cost of transportation service	3,977,340	3,750,164
Maintenance	809,451	762,940
General and administration	257,893	217,341
	5,044,684	4,730,445
Depreciation	1,419,263	1,292,241
	6,463,947	6,022,686
Operating loss	(4,569,783)	(4,364,863)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	842,891	845,522
Commonwealth of Massachusetts	1,488,292	1,546,861
Local	869,926	846,757
Loss on disposal of capital assets	(127,676)	(146,115)
Interest expense	(1,564)	(1,002)
	3,071,869	3,092,023
Loss before capital contributions	(1,497,914)	(1,272,840)
Capital grants and contributions	2,145,400	2,288,711
	2,145,400	2,288,711
Change in net position	647,486	1,015,871
Net position		
Beginning of year	12,144,826	11,128,955
End of year	\$ 12,792,312	\$ 12,144,826

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

Statement of Cash Flows

Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from customers	\$ 1,890,715	\$ 1,661,596
Payments to vendors and suppliers	(4,468,559)	(4,116,371)
Payments to employees	(595,419)	(570,554)
Payments of fringe	<u>(186,532)</u>	<u>(154,766)</u>
Net cash used in operations	<u>(3,359,795)</u>	<u>(3,180,095)</u>
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	1,500,000	1,500,000
Repayment of revenue anticipation notes	(1,500,000)	(1,500,000)
Operating assistance grants	3,288,474	3,123,423
Interest on notes	<u>(8,205)</u>	<u>(7,200)</u>
Net cash provided by noncapital financing activities	<u>3,280,269</u>	<u>3,116,223</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(2,035,570)	(878,658)
Capital contributions		
Federal		175,711
Commonwealth of Massachusetts	753,272	1,730,908
Proceeds from sale of capital assets	<u>4,900</u>	<u>6,917</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,277,398)</u>	<u>1,034,878</u>
Cash flows from investing activities		
Interest income	<u>7,376</u>	<u>6,311</u>
Net cash provided by investing activities	<u>7,376</u>	<u>6,311</u>
Net increase (decrease) in cash and cash equivalents	(1,349,548)	977,317
Cash and cash equivalents at beginning of year	<u>2,476,861</u>	<u>1,499,544</u>
Cash and cash equivalents at end of year	<u>\$ 1,127,313</u>	<u>\$ 2,476,861</u>
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (4,569,783)	\$ (4,364,863)
Adjustments to reconcile the operating loss to net cash used in operating activities:		
Depreciation expense	1,419,263	1,292,241
Other post employment benefits	170,932	
Other	(22,060)	
Changes in assets and liabilities:		
Receivables, net	(3,449)	3,773
Prepaid fuel hedge	(284,966)	
Other assets	(77,451)	(98,920)
Accounts payable and accrued expense	<u>7,719</u>	<u>(12,326)</u>
Net cash used in operations	<u>\$ (3,359,795)</u>	<u>\$ (3,180,095)</u>
Supplemental disclosures of noncash transactions		
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$ 60,400	\$
At June 30, 2016 and 2015, the Authority had capital expenditures that were included in accounts payable	1,674,899	1,625,469

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

1. The Reporting Entity

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

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

The operation of the Authority was performed by the Transit Connection, Incorporated (the Operator). The Operator functions under terms and agreements whereby it provides mass transit along such routes and according to such schedules as may be defined by the Authority. The current agreement terminates January 31, 2017. The contract may be terminated by either party with ninety day's notice.

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

2. Summary of Significant Accounting Policies

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

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

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

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements - In February, 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this standard did not have a material impact on the Authority's financial statements.

In June, 2015, the GASB issued Statement No. 73, *Accounting And Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, And Amendments To Certain Provisions of GASB 67 AND 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. It amends certain provisions of GASB 67 and 68. Further, it clarifies the application of certain provisions of Statement 67 and 68 with regard to the following issues:

- 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.

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

In June, 2015, the GASB issued GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supercedes GASB No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement identifies the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this standard did not have a material impact on the Authority's financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2016 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority's fiscal practices and financial reports is being evaluated.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements (continued)

<u>Statement No.</u>	<u>Adoption Required in Fiscal Year</u>
74 <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	2017
75 <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans</i>	2018
78 <i>Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</i>	2017
79 <i>Certain External Investment Pools and Pool Participants</i>	2017
80 <i>Blending Requirements for Certain Component Units – an amendment of GASB No. 14</i>	2017
81 <i>Irrevocable Split-Interest Agreements</i>	2018
82 <i>Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73.</i>	2018

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

d) Statement of Cash Flows – For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

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

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

	<u>Years</u>
Building and structures	15 – 40
Vehicles	5 – 10
Equipment	5 – 7
Intangible assets	5

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

j) Postemployment Benefits – Postemployment benefits, primarily healthcare, are recognized on an accrual basis. The accrual is the recognition of an actuarially required contribution as an expense, on the statement of revenues, expenses, and changes in net position, when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that the Authority does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position.

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

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

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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

n) Deferred Outflows/Inflows of Resources - The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2016, the Authority has reported deferred outflows that are related to its pension plan.

o) Hedge Program – The Authority manages a fuel oil hedging program, which is intended to take advantage of market conditions to cap fuel expense. The objectives of the program are to (1) identify exposure to movements in energy prices, (2) understand the impact to the Authority's financial position, (3) employ all reasonable and prudent measures to mitigate the impact of price movements, and (4) manage the volatility of energy costs to acceptable levels. The hedge program attempts to transform the unacceptable risks of skyrocketing energy prices into an acceptable form, similar to an insurance policy.

The Authority's hedging program operates under a non-speculative philosophy and transactions are limited to expected energy volumes anticipated in the normal course of operations. The Authority's hedging strategy is to prepay for its fuel in order to lock in or cap fuel prices to acceptable levels.

As of June 30, 2016, the Authority has entered into contracts for fuel and the following conditions exist: 1) the Authority has entered into similar contracts in the past, 2) the Authority is in the practice of taking delivery of the fuel and using same in the operation of its buses, and 3) the contract gallonage is consistent with the volume used in the Authority's operations. Therefore, the contracts are normal purchase contracts and are outside of the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Therefore, these contracts are not required to be reported as derivative instruments.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

3. Cash and Cash Equivalents

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or its agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Custodial credit risk exists for cash deposits when, in the event of the failure of a depository financial institution, the Authority's deposits will not be recovered. The Authority does not have a formal policy with regard to custodial credit risk, but generally invests its funds in deposits that are fully FDIC insured or collateralized with securities held by the pledging financial institution's trust department in the financial institution's name. At June 30, 2016, the Authority does not have any uninsured or uncollateralized bank deposits.

The total amounts of Authority deposits in financial institutions, per the bank statements, at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Balance per bank	\$ 1,452,532	\$ 2,804,845
Deposits covered by:		
Federal Depository Insurance Corporation	(250,000)	(250,000)
Collateralized with pledged securities	<u>(1,202,532)</u>	<u>(2,554,845)</u>
Total uninsured and uncollateralized deposits	<u>\$ -</u>	<u>\$ -</u>

Cash and cash equivalents reported in the accompanying statement of net position as of June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Current assets - cash and cash equivalents	\$ 959,025	\$ 1,165,492
Noncurrents assets - restricted funds	<u>168,288</u>	<u>1,311,369</u>
Total	<u>\$ 1,127,313</u>	<u>\$ 2,476,861</u>

4. Grants

The Federal government provides both operating and capital funding pursuant to the various sections of the Moving Ahead for Progress in the 21st Century (MAP-21) Act, of 2012. Further, the Commonwealth of Massachusetts (MassDOT) and the member communities provide the local share of both operating and capital funding.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

5. Receivable for Operating and Capital Assistance

The receivable for operating and capital assistance is disaggregated as follows:

	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Operating assistance		
United States Department of Transportation - Pass-through grants through the Commonwealth Operating grants		
Formula Grants for Rural Areas	\$ 845,522	\$ 845,522
 Local operating assistance to be billed to the Towns constituting the Authority and paid by the Commonwealth to the Authority	 1,234,082	 1,321,447
Other accounts receivable	105,225	101,776
Total operating assistance	<u>2,184,829</u>	<u>2,268,745</u>
Less noncurrent portion	<u>(387,325)</u>	<u>(495,342)</u>
Total current operating assistance	<u>\$ 1,797,504</u>	<u>\$ 1,773,403</u>
	<u>2016</u>	<u>2015</u>
<u>Noncurrent</u>		
Capital assistance		
Commonwealth of Massachusetts	\$ 1,788,713	\$ 456,985
Total capital assistance	<u>\$ 1,788,713</u>	<u>\$ 456,985</u>

6. Other Current Assets

The other current asset balance includes a motor vehicle parts and fuel inventory for 2016 and 2015 of approximately \$459,000 and \$371,000, respectively. This inventory is stated at the lower of cost or market on a first-in, first-out basis.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

7. Capital Assets and Depreciation

The capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Common carrier rights	\$ 1,620,000	\$ -	\$ -	\$ 1,620,000
Subtotal	<u>1,620,000</u>	<u>-</u>	<u>-</u>	<u>1,620,000</u>
Depreciable capital assets				
Building and structures	4,160,884	81,714		4,242,598
Vehicles	11,149,741	1,855,172	1,079,879	11,925,034
Equipment	895,761	131,679	1,900	1,025,540
Intangible assets		76,835		76,835
Subtotal	<u>16,206,386</u>	<u>2,145,400</u>	<u>1,081,779</u>	<u>17,270,007</u>
Accumulated depreciation	<u>7,641,061</u>	<u>1,419,263</u>	<u>949,203</u>	<u>8,111,121</u>
Net depreciable assets	<u>8,565,325</u>	<u>726,137</u>	<u>132,576</u>	<u>9,158,886</u>
Net capital assets	<u>\$ 10,185,325</u>	<u>\$ 726,137</u>	<u>\$ 132,576</u>	<u>\$ 10,778,886</u>

The capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Common carrier rights	\$ 1,620,000	\$ -	\$ -	\$ 1,620,000
Subtotal	<u>1,620,000</u>	<u>-</u>	<u>-</u>	<u>1,620,000</u>
Depreciable capital assets				
Building and structures	3,972,950	187,934		4,160,884
Vehicles	9,691,864	2,014,649	556,772	11,149,741
Equipment	876,365	86,128	66,732	895,761
Subtotal	<u>14,541,179</u>	<u>2,288,711</u>	<u>623,504</u>	<u>16,206,386</u>
Accumulated depreciation	<u>6,819,292</u>	<u>1,292,241</u>	<u>470,472</u>	<u>7,641,061</u>
Net depreciable assets	<u>7,721,887</u>	<u>996,470</u>	<u>153,032</u>	<u>8,565,325</u>
Net capital assets	<u>\$ 9,341,887</u>	<u>\$ 996,470</u>	<u>\$ 153,032</u>	<u>\$ 10,185,325</u>

Depreciation expense for 2016 and 2015 was \$1,419,263 and \$1,292,241, respectively.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

8. Accounts Payable and Accrued Expense

The accounts payable and accrued expense balance is current and disaggregated as follows:

	<u>2016</u>	<u>2015</u>
Payable to general vendors	\$ 164,575	\$ 155,643
Accrued salaries and benefits	40,874	42,822
Accrued interest	1,775	1,040
	<u>\$ 207,224</u>	<u>\$ 199,505</u>

9. Revenue Anticipation Notes

During the year ended June 30, 2016 and 2015, the following changes occurred in the Authority's revenue anticipation notes (RANs):

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 1,500,000	\$ 4,000,000
New notes issued	1,500,000	1,500,000
Notes retired	(1,500,000)	(4,000,000)
Ending balance	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

The RAN outstanding at June 30, 2016 is due in May, 2017, bears interest at .90% and is fully guaranteed by the Commonwealth of Massachusetts for the duration of the note. The RAN is expected to be refinanced upon maturity with generally the same terms as the note currently outstanding. Therefore, it is short-term debt expected to be refinanced and is included in the accompanying statement of net position as a noncurrent liability.

10. Restricted Net Position

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

	<u>2016</u>	<u>2015</u>
Expendable		
Restricted by enabling legislation		
Stabilization Fund	\$ 117,685	\$ 117,685
Reserve for extraordinary expense	50,603	25,200
Capital asset acquisitions	113,814	
	<u>\$ 282,102</u>	<u>\$ 142,885</u>

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

11. Leases

Operating lease

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

The future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 66,882
2018	66,882
2019	66,882
2020	50,162
	<u>\$ 250,808</u>

Aggregate rental expense for 2016 and 2015 was \$66,576 and \$66,081, respectively.

The Martha's Vineyard Airport Commission is a political subdivision of the Commonwealth of Massachusetts. Therefore, it is a related party to the Authority, see Note 14.

12. Employees' Retirement Benefits

Pension Plan

General Information about the Pension Plan

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

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

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Pension Plan (continued)

General Information about the Pension Plan (continued)

Contributions – Pursuant to Massachusetts General Laws, Chapter 32, contribution requirements of the active employees and the participating employers are established and may be amended by the Massachusetts Contributory Retirement System. Plan members are required to pay into the Plan 5% and 11% of their covered compensation, depending on plan entry date. The Authority's statutorily required contribution rate for the year ended June 30, 2016, was 12.50% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$67,486 for the year ended June 30, 2016.

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

At June 30, 2016 and 2015, the Authority reported a liability of \$267,629 and \$245,465, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Update procedures were used to roll forward the total pension liability to December 31, 2015. 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, 2015, the Authority's proportion of net pension liability was .681 percent.

Since DCRS 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, 2015.

For the year ended June 30, 2016, the Authority recognized pension expense of \$41,569 and reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 22,213
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,572
Total deferred outflows of resources	\$ 45,785

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

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

<u>Year</u>	
2017	\$ 10,124
2018	10,124
2019	10,124
2020	10,124
2021	5,289

Actuarial Assumptions – The total pension liability in the January 1, 2014 actuarial valuation and the related update to December 31, 2015 (the measurement date), were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost method
Amortization method	
UAAL	Increasing dollar amount at 4.5% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2030.
2002 & 2003 ERI's	Increasing dollar amount at 4.5% to reduce the unfunded actuarial accrued liability attributable to the ERI's on or before June 30, 2028.
Remaining amortization period	15 years for UAL and 13 years for 2002 and 2003 ERI's, both as of December 31, 2014
Asset valuation method	The market value of assets as of the valuation date reduced by the sum of 80% of gains and losses of the prior year, 40% of gains and losses of the second prior year, 60% of gains and losses of the third prior year and 20% of gains and losses of the fourth prior year.
	Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value.
Inflation	Not explicitly assumed
Salary increases	6% to 4.25%
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation
Cost of living adjustments	3.0 percent of the pension amount capped at \$420 per year.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

Actuarial Assumptions (continued)

Rates of retirement and disability	Varies based upon age
Mortality rates:	
Pre-retirement	The RP-2000 Mortality Table projected to 2020 with a Scale AA.
Post-retirement	The RP-2000 Mortality Table projected to 2015 with a Scale AA. For disabled lives, set forward two years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period of January 1, 2012 to January 1, 2014.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	40.00%	7.00%
International equity	15.00%	4.00%
Fixed income	25.00%	2.40%
Real estate	10.00%	7.10%
Timber	2.50%	4.90%
Alternatives - Private equity	5.00%	12.10%
Hedge funds	2.50%	2.70%
Total	100.00%	

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

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

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

	1% Decrease <u>(6.75 %)</u>	Discount Rate <u>(7.75 %)</u>	1% Increase <u>(8.75 %)</u>
Authority's proportionate share of the net pension liability	\$ 392,075	\$ 267,629	\$ 161,419

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

Post Employment Healthcare Benefits

Plan Description – The Authority provides postemployment health care benefits through the Dukes County Pooled OPEB Trust ("the Trust"). The Trust operates a cost-sharing, multiple employer, defined benefit OPEB plan. The Trust offers benefits to eligible employees (1) hired before April 2, 2012, who render at least 10 years of service and attain age 55, while in service, or 20 years of service at any age, until the employee is eligible for Medicare and (2) hired on or after April 2, 2012, who render at least 10 years of service are eligible at age 60, while in service, until the employee is eligible for Medicare. The benefits, benefit level, employee contributions and employer contributions are governed by the Authority. As of July 1, 2014, the actuarial valuation date, approximately 8 active employees and no retirees meet eligibility requirements. The plan does not issue separate stand-alone financial statements.

Benefits Provided – Medical coverage, excluding dental, under the group health insurance plan for regular full-time employees will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pay 25% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pay 100% of the enrollment costs as established annually by the Plan administrator.

Funding Policy – The retired employee must pay 25% of the enrollment cost (the "working rate") as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a fully funded basis.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Annual OPEB Costs and Net OPEB Obligation (continued)

Annual OPEB Costs and Net OPEB Obligation – The Authority's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed 30 years.

The components of the Authority's annual OPEB cost for the years ended June 30, 2016 and 2015, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation based on an actuarial valuation as of July 1, 2014 are as follows:

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 72,546	\$ 83,668
ARC adjustment	(5,658)	(2,000)
Interest on net OPEB obligation	7,319	4,578
Adjust to new actuarial valuation	96,725	
Annual OPEB cost	<u>170,932</u>	<u>86,246</u>
Contributions made		(114,440)
Increase (decrease) in net OPEB obligation	<u>170,932</u>	<u>(28,194)</u>
Net OPEB obligation - beginning of year	86,246	114,440
Net OPEB obligation - end of year	<u>\$ 257,178</u>	<u>\$ 86,246</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015 and 2014 are as follows:

<u>Fiscal Years Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Contribution</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 80,379	192.0%	114,440
June 30, 2015	\$ 86,246	132.7%	86,246
June 30, 2016	\$ 170,932	- %	257,178

Funded Status and Funding Progress – The funded status of the plan, based on the actuarial valuation as of July 1, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 761,271
Actuarial value of plan assets	(195,861)
Unfunded actuarial accrued liability (UAAL)	<u>\$ 565,410</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>25.7%</u>
Covered payroll (active plan members)	<u>\$ 520,390</u>
UAAL as a percentage of covered payroll	<u>108.7%</u>

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Funded Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit method was used. The actuarial value of the assets was \$195,861 and is recorded at market value. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 8.0% initially, reduced by 1.0% per year to an ultimate rate of 5.0%. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

13. Commitments and Contingencies

- a) Litigation – In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.
- b) Federal and State Grants - The Authority has received capital and operating financial assistance from Federal and State agencies in the form of grants. Expenditure of funds under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

13. Commitments and Contingencies (continued)

- c) Risk management – The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers compensation claims. The Authority carries commercial insurance to cover these potential losses. Settlements have not exceeded coverage for each of the past three fiscal years.

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

- d) Purchase commitments – As of June 30, 2016, the Authority did not have material purchase commitments outstanding.

14. Related Party Transactions

Transactions with MassDOT and the Commonwealth are as follows:

- a. Receivables for operating and capital assistance are delineated in Note 5.
b. Actual operating and capital assistance, rental income and lease expense are as follows:

	<u>2016</u>	<u>2015</u>
Operating assistance		
Commonwealth appropriations		
Operating assistance	\$ 1,585,533	\$ 1,546,861
Capital assistance	2,097,080	2,113,000
Federal pass-through grants		
Formula Grants for Rural Areas		
Operating assistance	842,891	845,522
Capital assistance	48,320	175,711
Local (Towns) assistance	869,926	846,757
Registry of Motor Vehicles rental income	27,378	26,840
Total related party income	5,471,128	5,554,691
Operating lease, see Note 11, lease expense	66,576	66,081
Total related party expense	66,576	66,081
Total related party transactions	\$ 5,537,704	\$ 5,620,772

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2016 and 2015

15. Reserve for Extraordinary Expense

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses in an amount not to exceed three percent of the prior year's local assessment. Any balance in the reserve account at the end of the fiscal year may be carried forward into the next fiscal year; provided, however, that the aggregate amount in the account does not exceed twenty percent of the prior year's local assessment. In fiscal years 2016 and 2015, the Authority increased the reserve by \$25,403 and \$24,783, respectively. The aggregate reserve at June 30, 2016 and 2015 was \$50,603 and \$25,200, respectively. This represents 5.98% and 3.05% of the applicable local assessments for 2016 and 2015, respectively.

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

16. Subsequent Events

The Authority evaluated subsequent events through October 5, 2016, when the financial statements were available to be issued, and determined that there are no other material items that would require recognition or disclosure in the Authority's financial statements.

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

Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability (Unaudited)
June 30, 2016

	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.681%	0.681%
Authority's proportionate share of the net pension liability	\$ 267,629	\$ 245,465
Authority's covered-employee payroll	\$ 539,866	\$ 519,102
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	49.57%	47.29%
Plan fiduciary net position as a percentage of the total pension liability	75.61%	76.17%

Notes to Required Supplementary Information

Measurement Date

The amounts presented in this schedule were determined as of December 31, 2015.

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 Dukes County Contributory 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, 2015.

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

Required Supplementary Information
Schedule of Pension Contributions (Unaudited)
June 30, 2016

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 67,486	\$ 81,018
Contributions in relation to the statutorily required contribution	<u>(67,486)</u>	<u>(81,018)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 539,866	\$ 519,102
Contributions as a percentage of its covered-employee payroll	12.50%	15.61%

Notes to Required Supplementary Information

Schedule Presentation

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

Contributions

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

MARTHA'S VINEYARD REGIONAL TRANSIT AUTHORITY
 (a Component Unit of the Massachusetts Department of Transportation)
 Required Supplementary Information (Unaudited)
 Retiree Health Plan Funding Progress
 June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	0% Ratio	- Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a/b)	(c)	([b - a] / c)
7/1/2010	\$ 92,442	\$ 215,830	\$ 123,388	42.8%	\$ 491,652	25.1%
7/1/2012	\$ 92,442	\$ 587,008	\$ 494,566	15.7%	\$ 499,871	98.9%
7/1/2014	\$ 195,861	\$ 761,271	\$ 565,410	25.7%	\$ 520,390	108.7%

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

Schedule 1

STATEMENT OF COSTS (Unaudited)
JUNE 30, 2016
FORM 1

	<u>Rural Area Service</u>
I. Operating Costs	
A. RTA administrative costs (excluding depreciation)	\$ 257,893
B. Purchased services	
Fixed route	4,191,507
Demand response	546,927
Brokerage services	48,357
C. Debt Service	8,940
Total Operating Costs	5,053,624
II. Federal Operating Assistance	
A. FTA operating and administrative	842,891
B. Other federal	
Total Federal Assistance	842,891
III. Revenues	
A. Farebox Revenue	1,736,745
B. Brokerage service reimbursement	48,357
C. Other third party reimbursement	66,709
D. Other Revenues	
1. Advertising	
2. Parking	
3. Sale of capital assets	
4. Interest income	7,376
5. Miscellaneous - rent income	42,353
Total Other Revenues	49,729
IV. Net Operating Deficit (I-II-III)	2,309,193
V. Adjustments	
A. Extraordinary expenses (not to exceed 3% of prior year's local assessment)	25,403
B. Stabilization fund	
C. Fund extended service	23,621
D. Prior year unfunded local assessment	97,242
	146,266
VI. Net Cost of Service (IV+V)	2,455,459
VII. Net Cost of Service Funding	
A. Local Assessments	869,926
B. State contract assistance	1,585,533
1. LESS: Adjustment for exceeding 2.5% cap on prior year net operating expenses	
	1,585,533
C. State Contract Assistance to be funded	1,585,533
1. LESS: Payments made by MassDOT in current year	(1,585,533)
D. Balance requested from the State	\$ -
VIII. Unreimbursed Deficit (VI-VIIA-VIIC)	

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

June 30, 2016
Form 2

I. Proof calculations and other required information:

A. Prior year operating expenses, net of fully funded costs brokerage service	\$ 4,691,532
Allowable percentage increase	2.5%
Prior year, net operating expenses times 2.5%	<u>117,288</u>
Current year, allowable net operating expense	4,808,820
Plus adjustments:	
ADA expenses in excess of the 2.5% cap	79,437
Brokerage funded costs	48,357
New service costs	117,010
Other: (explain)	
Total allowable operating costs (maximum allowed on Form 1, Line 1)	<u>5,053,624</u>
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	25,403
Prior year local assessment	<u>846,757</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)	3.0%
C. Aggregate amount of reserve account at June 30.	50,603
Prior year local assessment	<u>846,757</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)	5.98%
D. State the management fee paid to major service providers as a percentage of operating costs incurred.	2.0%
E. State the percentage of benefits paid by RTA on behalf of RTA employees for:	
1. Group life and accidental death insurance	N/A
2. Group health insurance	75.0%
F. State the brokerage service contracts costs as a percentage of total operating costs.	1.0%
G. Stabilization Fund	
1. Current year	
2. Aggregate balance	117,685

Schedule of Local (Towns) Funding (Unaudited)

June 30, 2016

<u>Community</u>	<u>Share</u>
Aquinnah	\$ 37,356
Chilmark	134,855
Edgartown	230,615
Oak Bluffs	128,638
Tisbury	217,960
West Tisbury	<u>120,502</u>
	<u>\$ 869,926</u>

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

Schedule 4

Schedule of Compensation Required by Massachusetts
Executive Office for Administration and Finance (Unaudited)
June 30, 2016

<u>Title</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>Severance</u>	<u>Retirement Contribution</u>	<u>Other</u>
Administrator	\$ 111,453	\$ -	\$ -	\$ 14,577	\$ 19,179
Other employees	-	-	-	-	-
Advisory Board Members	-	-	-	-	-