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

Basic Financial Statements, Supplementary Data
June 30, 2017

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

Table of Contents

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.

Condensed Financial Information

Statement of Net Position
(000 omitted)

	2017	2016	2015
Current assets	$ 3,372	$ 3,530	$ 3,350
Capital assets, net	12,118	10,779	10,185
Restricted and noncurrent assets	2,752	2,344	2,264
Total assets	18,242	16,653	15,799
Deferred outflows of resources	88	46	2
Total assets and deferred outflows of resources	18,330	16,699	15,801
Restricted and noncurrent liabilities	3,836	3,700	3,457
Current liabilities	309	207	199
Total liabilities	4,145	3,907	3,656
Deferred inflows of resources			
Total liabilities and deferred inflows of resources	4,145	3,907	3,656
Net position			
Invested in capital assets	12,118	10,779	10,185
Restricted	440	282	143
Unrestricted	1,627	1,731	1,817
Total net position	$ 14,185	$ 12,792	$ 12,145

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

	2017	2016	2015
Operating revenues			
Transportation services	$ 1,917	$ 1,894	$ 1,658
Operating expenses			
Cost of transportation service, maintenance and administration	5,190	5,045	4,731
Depreciation	1,633	1,419	1,292
	6,823	6,464	6,023
Operating loss	(4,906)	(4,570)	(4,365)
Nonoperating revenues and (expenses)			
Operating assistance	3,324	3,201	3,239
Other nonoperating	(134)	(129)	(147)
	3,190	3,072	3,092
Loss before capital contribution	(1,716)	(1,498)	(1,273)
Capital contributions	3,109	2,145	2,289
	3,109	2,145	2,289
Change in net position	1,393	647	1,016
Net position			
Beginning of year	12,792	12,145	11,129
End of year	$ 14,185	$ 12,792	$ 12,145

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2017 and 2016

The assets of the Authority exceeded its liabilities at June 30, 2017 by $14,185,000.

Total current assets decreased in 2017 versus 2016 by $158,000 (4.5%). This was caused primarily by a decrease in prepaid fuel hedge and an increase in inventory.

Total net capital assets increased in 2017 versus 2016 by $1,339,000 (12.4%). This was caused by capital acquisitions of $3,109,000 less removals and depreciation. These acquisitions were funded by Federal and State capital grants.

The restricted and noncurrent assets increased in 2017 versus 2016 by $408,000 (17.4%). This was caused by increases in receivable for capital assistance of $436,000 and restricted cash and cash equivalents of $26,000, less a decrease in receivable for operating assistance of $54,000.

The deferred outflows of resources related to pensions increased by $42,000 (91.3%).

The Authority's total assets increased in 2017 versus 2016 by $1,589,000 (9.5%).

Total debt increased by $238,000 (6.1%). This was caused by increases in accounts payable related to operations of $102,000, accounts payable related to capital expenditures of $304,000, net pension liability of $46,000 and revenue anticipation note of $4,000, less a decrease in the liability for other postemployment benefits of $218,000.

The Authority's net position increased by $1,393,000 (10.9%) during the current year. This was caused by operating revenues of $1,917,000 plus nonoperating revenue of $3,190,000 and capital contributions of $3,109,000, less operating expenses of $6,823,000.

Revenues

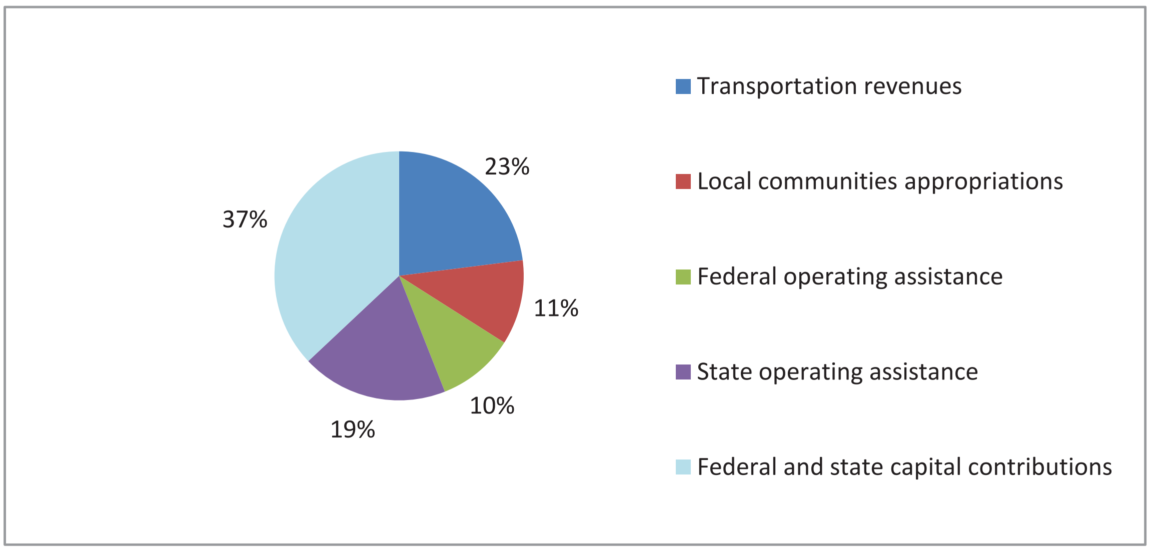
Total operating revenue increased in 2017 versus 2016 by $23,000 (1.2%). This was primarily caused by increases in ridership.

Nonoperating revenue increased in 2017 versus 2016 by $118,000 (3.8%).

Total capital contributions increased in 2017 versus 2016 by $964,000 (44.9%). This was caused primarily by increases in Federal and State capital grant funding.

The change in net position increased in 2017 versus 2016 by $746,000 (115.3%). This was caused by increases in revenue (capital contributions of $964,000, nonoperating revenues of $118,000 and operating revenues of $23,000), less operating expenses of $359,000.

Revenues by source:



Operating Expenses

Total operating expenses increased in 2017 versus 2016 by $359,000 (5.6%).

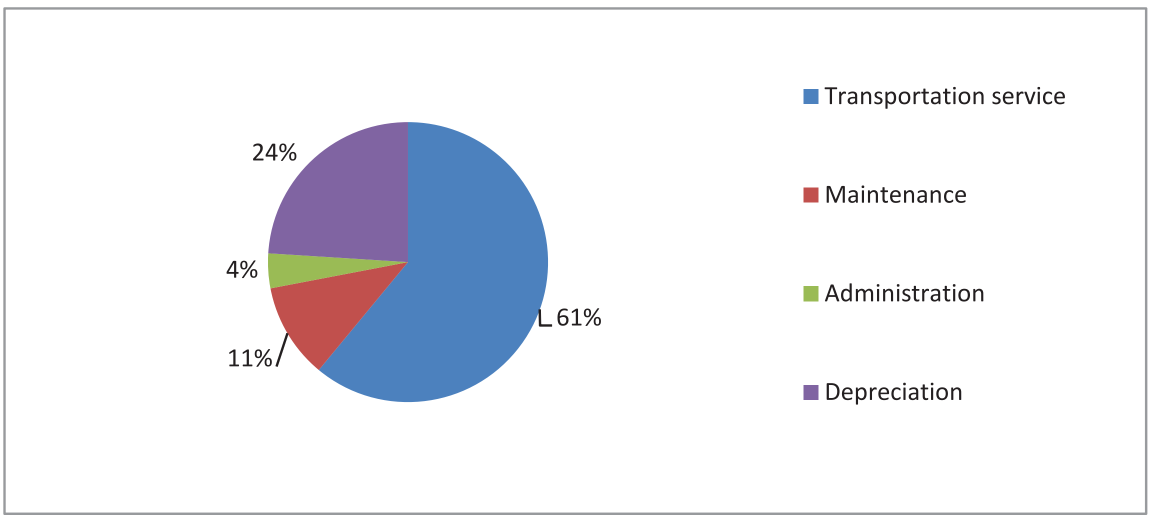
The cost of transportation service increased in 2017 versus 2016 by $200,000 (5.0%). This was caused primarily by an increase in service provided.

Maintenance expense and administrative expense decreased in 2017 versus 2016 by $55,000 (5.15%).

Depreciation expense increased in 2017 versus 2016 by $214,000 (15.1%). This was primarily attributable to the addition of a full years' depreciation on 2016 acquisitions and half years' depreciation on 2017 acquisitions, less removals.

The Authority's operating loss increased in 2017 versus 2016 by $336,000 (7.4%).

Expenses by source:



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.

Revenues

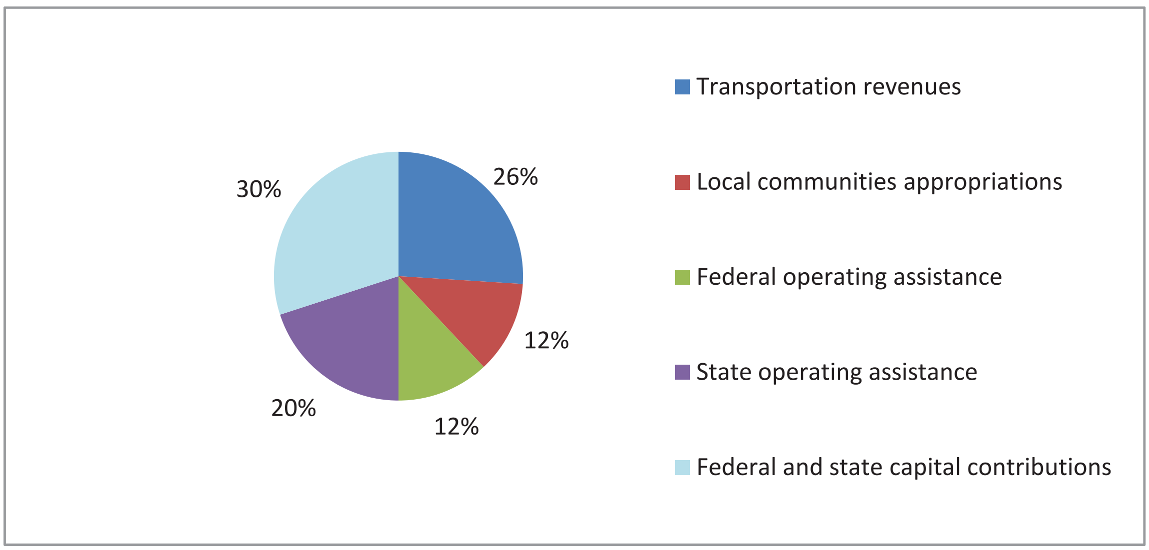
Total operating revenue increased in 2016 versus 2015 by $236,000 (14.2%). This was primarily caused by increases in fares and ridership.

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:



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.

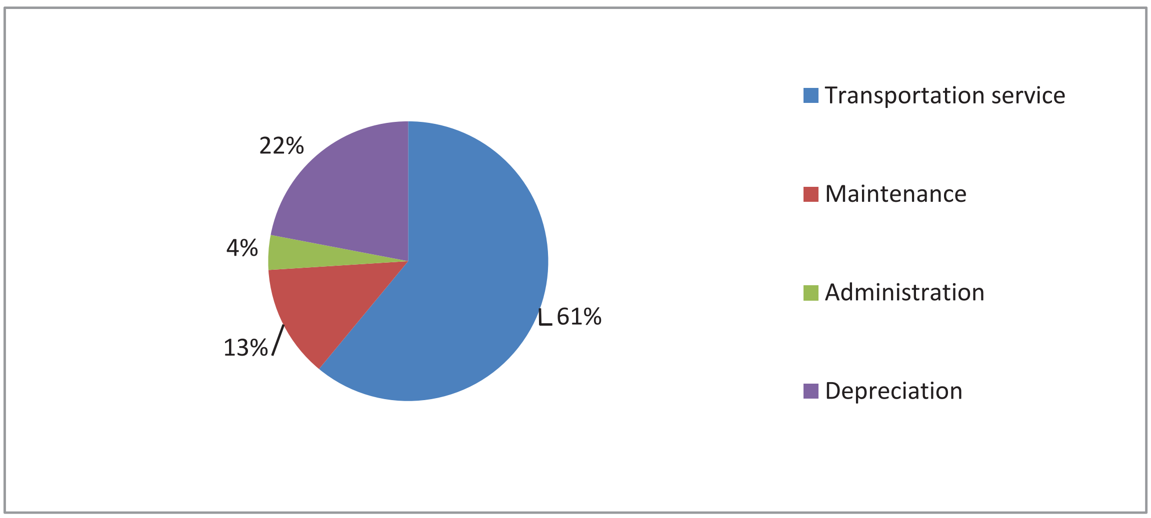
The cost of transportation service increased in 2016 versus 2015 by $227,000 (6.1%). This was caused primarily by an increase in service provided.

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:



Capital Assets

The Authority's capital assets as of June 30, 2017, amounted to $12,118,000, net of accumulated depreciation. The Authority's investment in capital assets includes buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2017, the Authority invested $3,109,000 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 $2,166,000.

More detailed information regarding the Authority's capital asset activities for 2017 can be found in the notes to the financial statements (Note 7).

Revenue Anticipation Note

The Authority had a revenue anticipation note, inclusive of premium, of $1,504,000 and $1,500,000 at the end of 2017 and 2016, respectively.

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, 64%, from operating assistance from the Commonwealth and 36% 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:

	2015	2016	2017
Farebox revenue	$1,502,000	$1,737,000	$1,752,000
Other revenue	156,000	157,000	165,000

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, 2017 and 2016, 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

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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, 2017 and 2016, 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 24 through 26 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 27 through 30, 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 September 12, 2017 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.

September 12, 2017

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

Statement of Net Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 899,588	$ 959,025
Receivable for operating assistance	1,903,787	1,797,504
Other current assets	568,263	488,750
Prepaid fuel hedge		284,966
Total current assets	3,371,638	3,530,245
Restricted and noncurrent assets		
Restricted assets		
Cash and cash equivalents	194,386	168,288
Receivable for capital assistance	2,224,684	1,788,713
Total restricted assets	2,419,070	1,957,001
Receivable for operating assistance	333,117	387,325
Capital assets, net	12,118,141	10,778,886
Total restricted and noncurrent assets	14,870,328	13,123,212
Total assets	18,241,966	16,653,457
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension	87,849	45,785
Total assets and deferred outflows of resources	18,329,815	16,699,242
LIABILITIES		
Current liabilities		
Accounts payable and accrued expense	308,983	207,224
Total current liabilities	308,983	207,224
Restricted and noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable and accrued expense	1,979,117	1,674,899
Total liabilities payable from restricted assets	1,979,117	1,674,899
Other postemployment benefits	39,104	257,178
Net pension liability	314,025	267,629
Revenue anticipation notes	1,504,027	1,500,000
Total restricted and noncurrent liabilities	3,836,273	3,699,706
Total liabilities	4,145,256	3,906,930
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension		
Total liabilities and deferred inflows of resources	4,145,256	3,906,930
NET POSITION		
Invested in capital assets	12,118,141	10,778,886
Restricted	439,953	282,102
Unrestricted	1,626,465	1,731,324
Total net position	$ 14,184,559	$ 12,792,312

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, 2017 and 2016

	2017	2016
Operating revenues		
Transportation services	$ 1,916,556	$ 1,894,164
Operating expenses		
Cost of transportation service	4,177,307	3,977,340
Maintenance	771,838	809,451
General and administration	241,231	257,893
	5,190,376	5,044,684
Depreciation	1,632,837	1,419,263
	6,823,213	6,463,947
Operating loss	(4,906,657)	(4,569,783)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	870,240	842,891
Commonwealth of Massachusetts	1,562,306	1,488,292
Local	891,674	869,926
Loss on disposal of capital assets	(126,998)	(127,676)
Interest expense	(7,023)	(1,564)
	3,190,199	3,071,869
Loss before capital contributions	(1,716,458)	(1,497,914)
Capital grants and contributions	3,108,705	2,145,400
	3,108,705	2,145,400
Change in net position	1,392,247	647,486
Net position		
Beginning of year	12,792,312	12,144,826
End of year	$ 14,184,559	$ 12,792,312

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

Statement of Cash Flows

Year Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers	$ 1,915,525	$ 1,890,715
Payments to vendors and suppliers	(4,303,708)	(4,468,559)
Payments to employees	(651,810)	(595,419)
Payments of fringe	(142,634)	(186,532)
Net cash used in operations	(3,182,627)	(3,359,795)
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	1,504,027	1,500,000
Repayment of revenue anticipation notes	(1,500,000)	(1,500,000)
Operating assistance grants	3,273,176	3,288,474
Interest on notes	(12,839)	(8,205)
Net cash provided by noncapital financing activities	3,264,364	3,280,269
Cash flows from capital and related financing activities		
Acquisition of capital assets	(2,804,487)	(2,035,570)
Capital contributions		
Commonwealth of Massachusetts	2,672,734	753,272
Proceeds from sale of capital assets	9,616	4,900
Net cash used in capital and related financing activities	(122,137)	(1,277,398)
Cash flows from investing activities		
Interest income	7,061	7,376
Net cash provided by investing activities	7,061	7,376
Net decrease in cash and cash equivalents	(33,339)	(1,349,548)
Cash and cash equivalents at beginning of year	1,127,313	2,476,861
Cash and cash equivalents at end of year	$ 1,093,974	$ 1,127,313

	2017	2016
Reconciliation of operating loss to net cash provided by operations		
Operating loss	$ (4,906,657)	$ (4,569,783)
Adjustments to reconcile the operating loss to net cash used in operating activities:		
Depreciation expense	1,632,837	1,419,263
Other post employment benefits	(218,074)	170,932
Other	4,332	(22,060)
Changes in assets and liabilities:		
Receivables, net	(1,031)	(3,449)
Prepaid fuel hedge	284,966	(284,966)
Other assets	(79,513)	(77,451)
Accounts payable and accrued expense	100,513	7,719
Net cash used in operations	$ (3,182,627)	$ (3,359,795)
Supplemental disclosures of noncash transactions		
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	$	$ 60,400
Increase in accounts payable related to capital expenditures	304,218	49,430
Increase in deferred outflows of resources and net pension liability	42,064	45,785

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 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, 2018. The contract may be terminated by either party with ninety days 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.

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements – In December, 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. 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, 2017 and may be 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.

Statement No.		Adoption Required in Fiscal Year
75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*	2018
81	*Irrevocable Split-Interest Agreements*	2018
82	*Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73.*	2018
83	*Certain Asset Retirement Obligations*	2019
84	*Fiduciary Activities*	2019
85	*Omnibus 2017*	2018
86	*Certain Debt Extinguishment Issues*	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.

2. Summary of Significant Accounting Policies (continued)

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:

	Years
Building and structures	15 – 40
Vehicles	5 – 12
Equipment	5 – 7
Intangible assets	5

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.

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 2017, 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 a diesel fuel contract 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.

The prepayment related to this contract of $190,995 was made subsequent to June 30, 2017. Therefore, the transaction did not affect the current year's financial statements.

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, 2017, 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, 2017 and 2016 are as follows:

	2017	2016
Balance per bank	$ 1,249,580	$ 1,452,532
Deposits covered by:		
Federal Depository Insurance Corporation	(250,000)	(250,000)
Collateralized with pledged securities	(999,580)	(1,202,532)
Total uninsured and uncollateralized deposits	$ -	$ -

Cash and cash equivalents reported in the accompanying statement of net position as of June 30, 2017 and 2016, are as follows:

	2017	2016
Current assets - cash and cash equivalents	$ 899,588	$ 959,025
Noncurrents assets - restricted funds	194,386	168,288
Total	$ 1,093,974	$ 1,127,313

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 and the Fixing America's Surface Transportation Act (FAST), of 2015. Further, the Commonwealth of Massachusetts (MassDOT) and the member communities provide the local share of both operating and capital funding.

5. Receivable for Operating and Capital Assistance

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

	2017	2016
Current		
Operating assistance		
United States Department of Transportation -		
Pass-through grants through the Commonwealth		
Operating grants		
Formula Grants for Rural Areas	$ 870,240	$ 845,522
Local operating assistance to be billed to the Towns constituting the Authority and paid by the Commonwealth to the Authority	1,260,408	1,234,082
Other accounts receivable	106,256	105,225
Total operating assistance	2,236,904	2,184,829
Less noncurrent portion	(333,117)	(387,325)
Total current operating assistance	$ 1,903,787	$ 1,797,504

	2017	2016
Noncurrent		
Capital assistance		
Commonwealth of Massachusetts	$ 1,853,816	$ 1,788,713
United States Department of Transportation	370,868	
Total capital assistance	$ 2,224,684	$ 1,788,713

6. Other Current Assets

The other current asset balance includes a motor vehicle parts and fuel inventory for 2017 and 2016 of approximately $553,000 and $459,000, respectively. This inventory is stated at the lower of cost or market on a first-in, first-out basis.

7. Capital Assets and Depreciation

The capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Common carrier rights	$ 1,620,000	$ -	$ -	$ 1,620,000
Subtotal	1,620,000	-	-	1,620,000
Depreciable capital assets				
Building and structures	4,242,598	652,714	42,980	4,852,332
Vehicles	11,925,034	2,165,694	1,097,839	12,992,889
Equipment	1,025,540	113,901	94,995	1,044,446
Intangible assets	76,835	176,396		253,231
Subtotal	17,270,007	3,108,705	1,235,814	19,142,898
Accumulated depreciation	8,111,121	1,632,837	1,099,201	8,644,757
Net depreciable assets	9,158,886	1,475,868	136,613	10,498,141
Net capital assets	$ 10,778,886	$ 1,475,868	$ 136,613	$ 12,118,141

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	1,620,000	-	-	1,620,000
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	16,206,386	2,145,400	1,081,779	17,270,007
Accumulated depreciation	7,641,061	1,419,263	949,203	8,111,121
Net depreciable assets	8,565,325	726,137	132,576	9,158,886
Net capital assets	$ 10,185,325	$ 726,137	$ 132,576	$ 10,778,886

Depreciation expense for 2017 and 2016 was $1,632,837 and $1,419,263, respectively.

8. Accounts Payable and Accrued Expense

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

	2017	2016
Payable to general vendors	$ 261,500	$ 164,575
Accrued salaries and benefits	44,462	40,874
Accrued interest	3,021	1,775
	$ 308,983	$ 207,224

9. Revenue Anticipation Notes

During the year ended June 30, 2017 and 2016, the following changes occurred in the Authority's revenue anticipation notes (RANs):

	2017	2016
Beginning balance	$ 1,500,000	$ 1,500,000
New notes issued	1,504,652	1,500,000
Notes retired	(1,500,625)	(1,500,000)
Ending balance	$ 1,504,027	$ 1,500,000

The RAN outstanding at June 30, 2017, has an interest rate of 1.50% (effective interest rate is 1.19% after accounting for premium), and is due in May, 2018. The above balance is inclusive of an unamortized premium of $4,027.

All required payments with respect to this obligation are guaranteed by the Commonwealth of Massachusetts. The guarantee is for the entire duration of the note. Further, in the history of the Authority, the Commonwealth has never had to pay anything with respect to the Authority's RANs.

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 thus classified as long-term debt.

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:

	2017	2016
Expendable		
Restricted by enabling legislation		
Stabilization Fund	$ 117,685	$ 117,685
Reserve for extraordinary expense	76,701	50,603
Capital asset acquisitions	245,567	113,814
	$ 439,953	$ 282,102

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, net of related minimum sublease income, are as follows:

Year	Minimum Lease Payments	Minimum Sublease Income	Net Lease Payments
2018	$ 68,559	$ 28,485	$ 40,074
2019	68,559	29,053	39,506
2020	51,419	4,858	46,561
	$ 188,537	$ 62,396	$ 126,141

Aggregate rental expense for 2017 and 2016 was $67,301 and $66,576, 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.

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, 2017, was 9.11% 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 $52,378 for the year ended June 30, 2017.

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

At June 30, 2017 and 2016, the Authority reported a liability of $314,025 and $267,629, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Update procedures were used to roll forward the total pension liability to December 31, 2016. 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, 2016, the Authority's proportion of net pension liability was .684 percent.

For the year ended June 30, 2017, the Authority recognized pension expense of $56,710 and reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	$ 4,241
Net difference between projected and actual investment earnings on pension plan investments	19,627
Changes in assumptions	34,591
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,390
Total deferred outflows of resources	$ 87,849

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:

Year	
2018	$ 20,456
2019	20,454
2020	21,029
2021	15,023
2022	10,497
Thereafter	390

Actuarial Assumptions – The total pension liability in the January 1, 2016 actuarial valuation and the related update to December 31, 2016 (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. The annual increase in appropriation is further limited to 5% per year for FY 2018 and 2019 and 5.32% for FY 2020 and beyond.
2002 & 2003 ERI's	Increasing dollar amount to reduce the unfunded actuarial accrued liability attributable to the ERI's to zero on or before June 30, 2028.
Remaining amortization period	14 years for UAL as of December 31, 2016 12 years for the 2002 and 2003 ERI's as of December 31, 2016.
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, 60% of gains and losses of the second prior year, 40% 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	3%
Projected salary increases	6% to 4.25%

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)

Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation
Cost of living adjustments	Cost of living adjustments of 3.0 percent of the first $14,000 of the annual retirement allowance are provided at the discretion of the System's Retirement Board.
Payroll growth	4% per year
Rates of retirement and disability	Varies based upon age
Mortality rates	Mortalitiy rates were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvements using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

The long-term expected rate of return on pension plan investments 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	40.00%	6.60%
International equity	15.00%	3.70%
Alternatives - Private equity	5.00%	11.10%
Hedge funds	2.50%	2.00%
Real estate	10.00%	7.00%
Timber	2.50%	4.40%
Fixed income	25.00%	2.40%
Total	100.00%	

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)

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.

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 (6.75 %)	Discount Rate (7.75 %)	1% Increase (8.75 %)
Authority's proportionate share of the net pension liability	$ 457,716	$ 314,025	$ 192,500

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 an agent, 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 issues separate stand-alone financial statements. A copy of the statement may be obtained by contacting the Trustee Chair, 9 Airport Road, Suite 1, Vineyard Haven, MA 02568.

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Annual OPEB Costs and Net OPEB Obligation (continued)

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.

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, 2017 and 2016, 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:

	2017	2016
Annual required contribution (ARC)	$ 72,546	$ 72,546
ARC adjustment	(6,626)	(5,658)
Interest on net OPEB obligation	10,287	7,319
Adjust to new actuarial valuation		96,725
Annual OPEB cost	76,207	170,932
Contributions made	(294,282)	
Increase (decrease) in net OPEB obligation	(218,075)	170,932
Net OPEB obligation - beginning of year	257,178	86,246
Net OPEB obligation - end of year	$ 39,103	$ 257,178

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 are as follows:

Fiscal Years Ended		Annual OPEB Cost	Percentage Annual OPEB Contribution	Net OPEB Obligation
June 30, 2015	$	86,246	132.7%	86,246
June 30, 2016	$	170,932	- %	257,178
June 30, 2017	$	76,207	3.9%	39,103

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

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)	$ 565,410
Funded ratio (actuarial value of plan assets/AAL)	25.7%
Covered payroll (active plan members)	$ 520,390
UAAL as a percentage of covered payroll	108.7%

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.

13. Commitments and Contingencies (continued)

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.

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, 2017, the Authority had a commitment to purchase four transit buses for $2,517,668. Management expects delivery of these vehicles in fiscal year 2018.

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:

	2017	2016
Operating assistance		
Commonwealth appropriations		
Operating assistance	$ 1,585,533	$ 1,585,533
Capital assistance	2,737,837	2,097,080
Federal pass-through grants		
Formula Grants for Rural Areas		
Operating assistance	870,240	842,891
Capital assistance	370,868	48,320
Local (Towns) assistance	891,674	869,926
Registry of Motor Vehicles rental income	27,926	27,378
Total related party income	6,484,078	5,471,128
Operating lease, see Note 11, lease expense	67,301	66,576
Total related party expense	67,301	66,576
Total related party transactions	$ 6,551,379	$ 5,537,704

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 2017 and 2016, the Authority increased the reserve by $26,098 and $25,403, respectively. The aggregate reserve at June 30, 2017 and 2016 was $76,701 and $50,603, respectively. This represents 8.82% and 5.98% of the applicable local assessments for 2017 and 2016, 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 September 12, 2017, when the financial statements were available to be issued. On July 1, 2017, the Authority made a prepayment related to its fuel hedging program of $190,995. This payment effectively locked-in diesel costs at the June 29, 2017 rate per gallon.

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, 2017

	2017	2016	2015
Authority's proportion of the net pension liability	0.684%	0.681%	0.681%
Authority's proportionate share of the net pension liability	$ 314,025	$ 267,629	$ 245,465
Authority's covered-employee payroll	$ 574,843	$ 539,866	$ 519,102
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.63%	49.57%	47.29%
Plan fiduciary net position as a percentage of the total pension liability	74.21%	75.61%	76.17%

Notes to Required Supplementary Information

Measurement Date
The amounts presented in this schedule were determined as of December 31, 2016.

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 in Assumptions
The mortality rates and mortality improvement scale were updated to reflect fully generational mortality improvement.

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, 2017

	2017	2016	2015
Statutorily required contribution	$ 52,378	$ 67,486	$ 81,018
Contributions in relation to the statutorily required contribution	(52,378)	(67,486)	(81,018)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 574,843	$ 539,866	$ 519,102
Contributions as a percentage of its covered-employee payroll	9.11%	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 and 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, 2017

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)

STATEMENT OF COSTS (Unaudited)
JUNE 30, 2017
FORM 1

	Rural Area Service
I. Operating Costs	
A. RTA administrative costs	
(excluding depreciation)	$ 241,231
B. Purchased services	
Fixed route	4,334,501
Demand response	551,980
Brokerage services	62,664
C. Debt Service	14,084
Total Operating Costs	5,204,460
II. Federal Operating Assistance	
A. FTA operating and administrative	870,240
B. Other federal	
Total Federal Assistance	870,240
III. Revenues	
A. Farebox Revenue	1,751,875
B. Brokerage service reimbursement	62,664
C. Other third party reimbursement	69,016
D. Other Revenues	
1. Advertising	
2. Parking	
3. Sale of capital assets	
4. Interest income	7,062
5. Miscellaneous - rent income	33,001
Total Other Revenues	40,063
IV. Net Operating Deficit (I-II-III)	2,410,602
V. Adjustments	
A. Extraordinary expenses (not to exceed	
3% of prior year's local assessment)	26,098
B. Stabilization fund	
C. Fund extended service	17,280
D. Prior year unfunded local assessment	23,227
	66,605
VI. Net Cost of Service (IV+V)	2,477,207
VII. Net Cost of Service Funding	
A. Local Assessments	891,674
B. State contract assistance	1,585,533
1. LESS: Adjustment for exceeding 2.5%	
cap on prior year net operating expenses	
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)	

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

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

June 30, 2017
Form 2

I. Proof calculations and other required information:

A. Prior year operating expenses, net of fully funded costs brokerage service	$ 5,005,267
Allowable percentage increase	2.5%
Prior year, net operating expenses times 2.5%	125,132
Current year, allowable net operating expense	5,130,399
Plus adjustments:	
ADA expenses in excess of the 2.5% cap	11,397
Brokerage funded costs	62,664
New service costs	
Other: (explain)	
Total allowable operating costs (maximum allowed on Form 1, Line 1)	5,204,460
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	26,098
Prior year local assessment	869,926
Percentage of extraordinary to prior local assessments (not to exceed 3%)	3.0%
C. Aggregate amount of reserve account at June 30.	76,701
Prior year local assessment	869,926
Percentage of reserve account to prior local assessment (not to exceed 20%)	8.82%
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.	1.2%
G. Stabilization Fund	
1. Current year	
2. Aggregate balance	117,685

See accompanying independent auditors' report

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

Schedule of Local (Towns) Funding (Unaudited)

June 30, 2017

Community		Share
Aquinnah	$	38,290
Chilmark		138,226
Edgartown		236,380
Oak Bluffs		131,854
Tisbury		223,409
West Tisbury		123,515
	$	891,674

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, 2017

Title	Base Salary	Bonus	Severance	Retirement Contribution	Other
Administrator	$ 135,200	$ -	$ -	$ 11,419	$ 34,285
Other employees	-	-	-	-	-
Advisory Board Members	-	-	-	-	-