

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a component Unit of the Massachusetts Department of Transportation)

Basic Financial Statements, Supplementary Data
June 30, 2019

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

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NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

The Reporting Entity

The management of the Nantucket 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 (the Commonwealth) on April 15, 1986, by the town of Nantucket. This was done pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth, for the purpose of continuing and improving local transit service on the island of Nantucket.

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, this 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. Further, 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 also included in the invested in capital 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 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.

NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

Condensed Financial Information

Statement of Net Position
(000 omitted)

	2019	2018	2017
Current assets	\$ 1,299	\$ 1,280	\$ 1,354
Capital assets, net	2,829	2,396	2,741
Restricted and other noncurrent assets	833	465	1,082
Total assets	<u>4,961</u>	<u>4,141</u>	<u>5,177</u>
Deferred outflows of resources	134	51	48
Total assets and deferred outflows of resources	<u>5,095</u>	<u>4,192</u>	<u>5,225</u>
Restricted and noncurrent liabilities	1,255	858	1,498
Current liabilities	193	87	207
Total liabilities	<u>1,448</u>	<u>945</u>	<u>1,705</u>
Deferred inflows of resources	114	68	5
Total liabilities and deferred inflows of resources	<u>1,562</u>	<u>1,013</u>	<u>1,710</u>
Net position			
Invested in capital assets	2,829	2,396	2,741
Restricted	199	183	199
Unrestricted	505	600	575
Total net position	<u>\$ 3,533</u>	<u>\$ 3,179</u>	<u>\$ 3,515</u>

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

	2019	2018	2017
Operating revenues			
Transportation services	\$ 669	\$ 526	\$ 450
Operating expenses			
Cost of services, maintenance and administration	2,846	2,025	2,159
Depreciation	558	522	518
	<u>3,404</u>	<u>2,547</u>	<u>2,677</u>
Operating loss	<u>(2,735)</u>	<u>(2,021)</u>	<u>(2,227)</u>
Nonoperating revenues			
Operating assistance	2,089	1,479	1,694
	<u>2,089</u>	<u>1,479</u>	<u>1,694</u>
Loss before capital contribution	<u>(646)</u>	<u>(542)</u>	<u>(533)</u>
Capital contributions	1,000	206	879
	<u>1,000</u>	<u>206</u>	<u>879</u>
Change in net position	354	(336)	346
Net position			
Beginning of year, as reported	3,179	3,515	3,353
Cumulative effect of change in accounting principle - OPEB			(184)
Beginning of year, as restated	<u>3,179</u>	<u>3,515</u>	<u>3,169</u>
End of year	<u>\$ 3,533</u>	<u>\$ 3,179</u>	<u>\$ 3,515</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2019 and 2018

The assets of the Authority exceeded its liabilities at June 30, 2019 by \$3,533,000.

The Authority's net position increased by \$354,000 during the current year. This was due to an operating loss of \$2,735,000, less operating assistance income of \$2,089,000 and capital contributions of \$1,000,000.

The Authority's total assets and deferred outflows of resources increased in 2019 versus 2018 by \$903,000 (21.5%).

Total current assets increased by \$19,000 (1.4%).

Total net capital assets increased \$433,000 (18.1%). This was caused by the net effect of capital acquisitions of \$1,000,000 and depreciation of \$558,000 and removals of \$9,000.

Total debt increased by \$503,000 (53.2%). This was caused by a increases in current accounts payable and accrued expense of \$106,000, pension and OPEB liabilities of \$117,000, notes payable of \$375,000 less a decrease in liabilities payable from restricted assets of \$95,000.

Deferred inflows of resources increased by \$46,000 (67.6%). This was caused by an increase in deferred inflows related to OPEB of \$73,000, less a decrease of \$27,000 related to pensions.

NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

Revenues

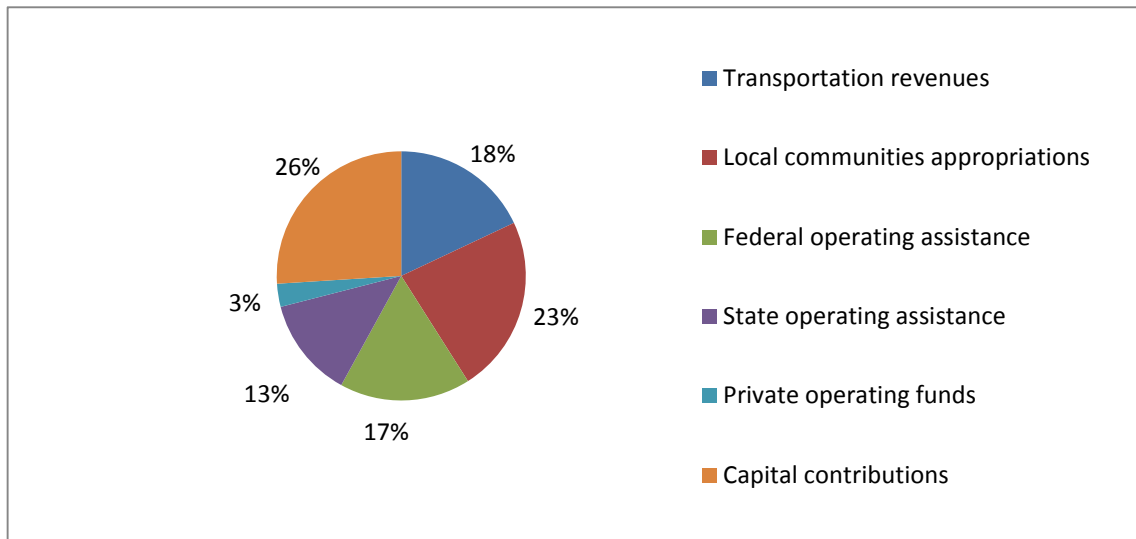
Total operating revenue increased by \$143,000 (27.2%). This was caused by an increase in farebox revenue of \$146,000, less a decrease in rent of \$3,000.

Total operating assistance grants increased in 2019 versus 2018 by \$610,000 (41.2%). This was caused by an increase in Federal and State assistance of \$88,000, local assistance of \$446,000 and other funding of \$76,000.

Total capital contributions increased in 2019 versus 2018 by \$794,000 (385.4%). This was caused primarily by an increase in State capital grant funding.

The change in net position increased in 2019 versus 2018 by \$690,000 (205.4%). This was caused by increases in the operating assistance of \$610,000 and capital assistance of \$794,000, less an increase in operating loss of \$714,000.

Revenues by source:



NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

Operating Expenses

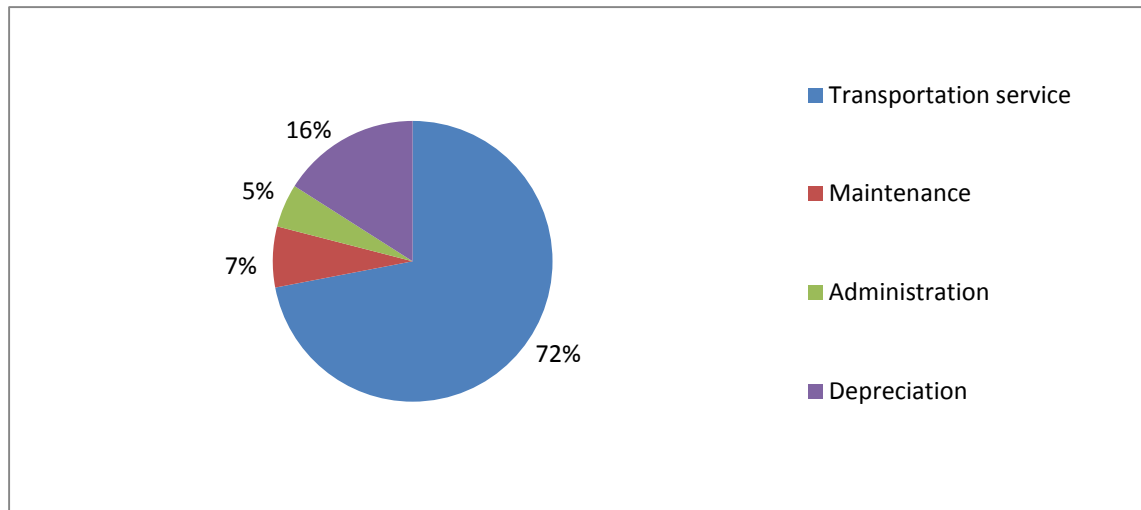
Total operating expenses increased in 2019 versus 2018 by \$857,000 (33.6%). This was caused primarily by the implementation of the year round fixed route bus service.

The cost of transportation service increased in 2019 versus 2018 by \$746,000 (43.3%). This was also caused by the implementation of the year round fixed route bus service.

Maintenance expense and administrative expense increased in 2019 versus 2018 by \$56,000 (33.7%).

Depreciation expense increased in 2019 versus 2018 by \$36,000 (6.9%). This was primarily attributable to the addition of one full year of depreciation on 2018 acquisitions and one half year of depreciation on 2019 acquisitions.

Expenses by source:



NANTUCKET REGIONAL TRANSIT AUTHORITY
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JUNE 30, 2019

FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2018 and 2017

The assets of the Authority exceeded its liabilities at June 30, 2018 by \$3,179,000.

The Authority's net position decreased by \$336,000 during the current year. This was due to an operating loss of \$2,021,000, less operating assistance income of \$1,479,000 and capital contributions of \$206,000.

The Authority's total assets and deferred outflows of resources decreased in 2018 versus 2017 by \$1,033,000 (19.8%).

Total current assets decreased by \$74,000 (5.5%). This was caused by decreases in cash of \$53,000 and receivables and other current assets of \$21,000.

Total net capital assets decreased \$345,000 (12.6%). This was caused by the net effect of capital acquisitions of \$207,000 and depreciation of \$522,000 and removals of \$30,000.

Total debt decreased by \$760,000 (44.6%). This was caused by a decrease in current accounts payable, accrued expense and unearned revenue of \$120,000 and liabilities payable from restricted assets of \$798,000 netted against increases in the liabilities for other postemployment benefits and net pension liability of \$158,000,

Deferred inflows of resources increased by \$63,000 (126.0%). This was caused by an increase in deferred inflows related to OPEB and pensions of \$37,000 and \$26,000, respectively.

The beginning net assets was restated pursuant to the adoption of GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, by approximately \$184,000 (i.e., decreased). This restatement related to the Authority's postemployment healthcare plan.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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JUNE 30, 2019

Revenues

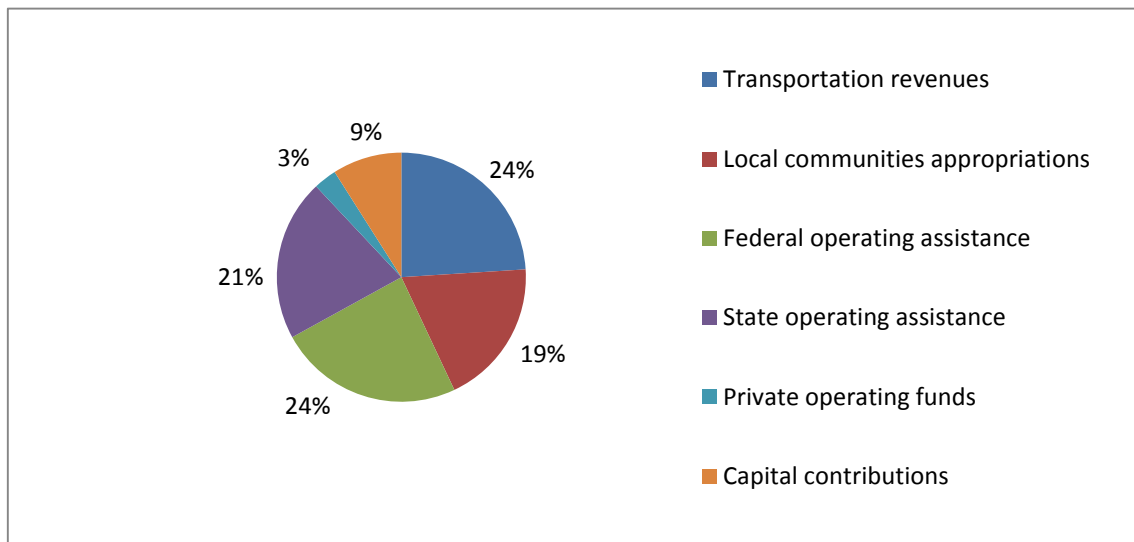
Total operating revenue increased by \$76,000 (16.9%). This was caused by increases in rent income of \$52,000 and farebox revenue of \$30,000, less a decrease in other income of \$6,000.

Total operating assistance grants decreased in 2018 versus 2017 by \$215,000 (12.7%). This was caused primarily by a decrease in private funding.

Total capital contributions decreased in 2018 versus 2017 by \$673,000 (76.6%). This was caused primarily by a decrease in State capital grant funding.

The change in net position decreased in 2018 versus 2017 by \$682,000 (197.1%). This was caused by decreases in the operating assistance of \$215,000 and capital assistance of \$673,000, less the decrease in operating loss of \$206,000.

Revenues by source:



NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2019

Operating Expenses

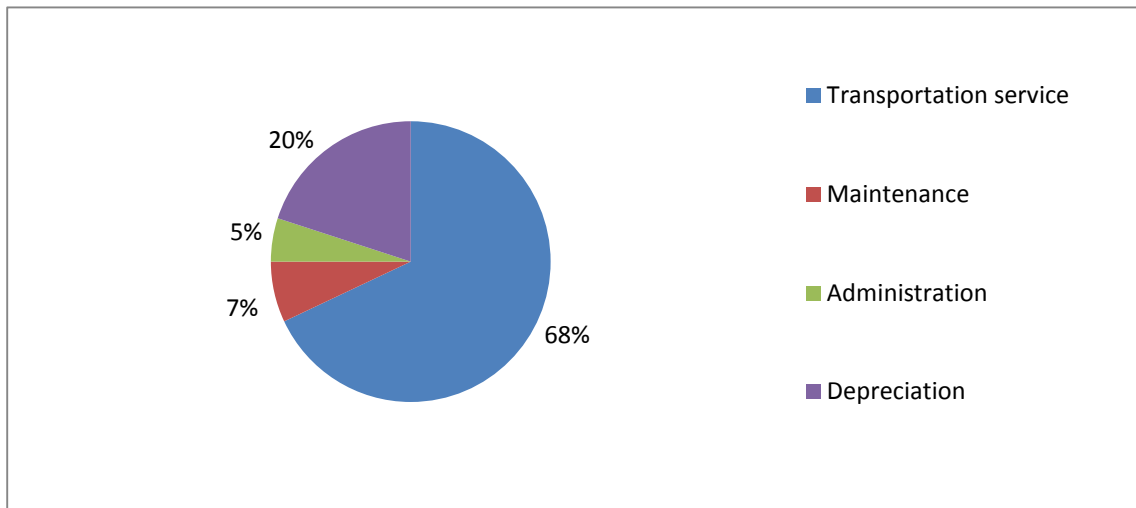
Total operating expenses decreased in 2018 versus 2017 by \$130,000 (4.9%). This was caused primarily by a decrease in the cost of transportation service.

The cost of transportation service decreased in 2018 versus 2017 by \$141,000 (7.6%). This was caused primarily by a decrease in service provided. The decrease resulted from the discontinuance of the Ferry Connector service in 2018 and a renegotiation of the purchased transportation contract.

Maintenance expense and administrative expense increased in 2018 versus 2017 by \$7,000 (2.4%).

Depreciation expense increased in 2018 versus 2017 by \$4,000 (.8%). This was primarily attributable to the addition of one full year of depreciation on 2017 acquisitions and one half year of depreciation on 2018 acquisitions.

Expenses by source:



NANTUCKET REGIONAL TRANSIT AUTHORITY
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Capital Assets

The Authority's capital assets as of June 30, 2019, amounted to \$2,829,000, net of accumulated depreciation. The Authority's investment in capital assets includes buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2019, the Authority invested \$1,000,000 in various capital assets. Capital asset additions were funded through State capital grants.

More detailed information regarding the Authority's capital assets activities for 2019 can be found in the notes to the financial statements (Note 7).

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, 36%, from operating assistance from MassDOT and 64% by assessments to the member community.

Demand for the Authority's services is mainly affected by the overall economic activity on Nantucket, 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 are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Farebox revenue	\$438,000	\$468,000	\$609,000
Other revenue	12,000	58,000	60,000

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 Paula Leary, Administrator, Nantucket Regional Transit Authority, 20 R South Water Street, Nantucket, MA 02554.

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

The Advisory Board
Nantucket Regional Transit Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Nantucket Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2019 and 2018, 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 audits. 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 audits 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 respective financial position of the Authority as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, 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 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 audits were 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 and 29 are 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 18, 2019, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Bruce D. Norling, CPA, P.C.

October 18, 2019

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 100,352	\$ 188,133
Receivable for operating assistance	1,027,460	954,032
Other current assets	171,036	138,301
Total current assets	<u>1,298,848</u>	<u>1,280,466</u>
Restricted and noncurrent assets		
Restricted assets		
Cash and cash equivalents	171,880	218,389
Receivable capital assistance	58,078	91,740
Total restricted assets	<u>229,958</u>	<u>310,129</u>
Receivable for operating assistance	602,595	155,036
Capital assets, net	2,829,420	2,395,516
Total noncurrent assets	<u>3,661,973</u>	<u>2,860,681</u>
Total assets	4,960,821	4,141,147
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to OPEB	67,161	
Deferred outflows of resources related to pension	66,579	50,636
	<u>133,740</u>	<u>50,636</u>
Total assets and deferred outflows of resources	<u>5,094,561</u>	<u>4,191,783</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expense	192,823	72,323
Unearned revenue		14,371
Total current liabilities	<u>192,823</u>	<u>86,694</u>
Restricted and noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable and accrued expense	31,305	80,097
Unearned revenue		46,509
Total liabilities payable from restricted assets	<u>31,305</u>	<u>126,606</u>
Net pension liability	452,305	389,444
Other postemployment benefits	396,538	342,296
Notes payable	375,000	
Total restricted and noncurrent liabilities	<u>1,255,148</u>	<u>858,346</u>
Total liabilities	1,447,971	945,040
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to OPEB	109,234	36,529
Deferred inflows of resources related to pension	4,328	31,048
Total deferred inflows of resources	<u>113,562</u>	<u>67,577</u>
Total liabilities and deferred inflows of resources	<u>1,561,533</u>	<u>1,012,617</u>
NET POSITION		
Invested in capital assets	2,829,420	2,395,516
Restricted	198,653	183,523
Unrestricted	504,955	600,127
Total net position	<u>\$ 3,533,028</u>	<u>\$ 3,179,166</u>

See accompanying notes to financial statements

NANTUCKET 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Transportation services	\$ 620,000	\$ 473,822
Rent income	48,500	52,125
	668,500	525,947
Operating expenses		
Transportation service	2,467,736	1,721,889
Maintenance	222,214	166,238
General and administration	156,214	136,684
	2,846,164	2,024,811
Depreciation expense	557,732	521,999
	3,403,896	2,546,810
Operating loss	(2,735,396)	(2,020,863)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	625,487	545,730
Commonwealth of Massachusetts	488,184	478,658
Local	865,290	418,510
Private Funding	118,662	53,370
Other	(8,497)	(17,303)
	2,089,126	1,478,965
Loss before capital contributions	(646,270)	(541,898)
Capital contributions		
Commonwealth of Massachusetts capital assistance grants	1,000,132	180,197
Private Funding		26,110
	1,000,132	206,307
Change in net position	353,862	(335,591)
Net position		
Beginning of year	3,179,166	3,514,757
End of year	\$ 3,533,028	\$ 3,179,166

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows

Year Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Transportation services	\$ 668,500	\$ 525,947
Payments to vendors and suppliers	(2,372,851)	(1,781,830)
Payments to employees	(214,368)	(184,441)
Payments of fringe	(99,669)	(86,029)
	<u>(2,018,388)</u>	<u>(1,526,353)</u>
Net cash used in operations		
Cash flows from noncapital financing activities		
Proceeds from direct financing note	200,000	
Repayment of direct financing note	(200,000)	
Proceeds from revenue anticipation notes	375,000	
Operating assistance grants	1,457,974	1,414,290
Private funding	60,715	30,943
Interest expense	(943)	(2,048)
	<u>1,892,746</u>	<u>1,443,185</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,048,924)	(978,587)
Capital contributions		
Massachusetts Department of Transportation capital appropriations	1,033,974	968,209
Proceeds from sale of capital assets		12,902
	<u>(14,950)</u>	<u>2,524</u>
Net cash (used in) provided by capital and related financing activities		
Cash flows from investing activities		
Interest income	6,302	2,027
	<u>6,302</u>	<u>2,027</u>
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(134,290)	(78,617)
Cash and cash equivalents at beginning of year	406,522	485,139
Cash and cash equivalents at end of year	<u>\$ 272,232</u>	<u>\$ 406,522</u>
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (2,735,396)	\$ (2,020,863)
Adjustments to reconcile the operating loss to net cash used in operating activities:		
Depreciation expense	557,732	521,999
Other post employment benefits	59,786	23,196
Pension expense	20,198	10,991
Changes in assets and liabilities:		
Other assets	(32,735)	36,007
Accounts payable and accrued expense	112,027	(97,683)
	<u>(2,018,388)</u>	<u>(1,526,353)</u>
Net cash used in operations		
Supplemental disclosures of noncash transactions		
Increase (decrease) in accounts payable related to capital expenditures	\$ 48,792	\$ (771,953)

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2019 and 2018

1. The Reporting Entity

The Nantucket 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 April 15, 1986, by the Town of Nantucket, the sole member community of the Authority. This was done 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 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 of the Town of Nantucket. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from Federal and State governments and the Town of Nantucket. In addition, the Authority receives Federal and State capital grants that are used to finance acquisitions of and improvements to facilities and equipment.

The Authority provides fixed route bus services to the general public and demand response services to the elderly and to individuals with disabilities. The operation of these services is performed by a private sector operator (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 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 third party vendors, maintenance, administrative and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements – In November, 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this Statement. The adoption of this standard did not have a material impact on the Authority’s financial statements.

In April, 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of this standard required the Authority to make certain note disclosures, but overall 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, 2019 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.

<u>Statement No.</u>	<u>Adoption Required in Fiscal Year</u>
84 <i>Fiduciary Activities</i>	2020
87 <i>Leases</i>	2021
89 <i>Accounting for Interest Cost Incurred before The End of Construction Period</i>	2021
90 <i>Majority Equity Interests – an amendment of GASB Statements No. 14 and 61</i>	2020
91 <i>Conduit Debt Obligations</i>	2022

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.

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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:

	<u>Years</u>
Building and structures	15 – 40
Vehicles	4 – 10
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 asset acquisition and other expenses.

j) Postemployment Benefits – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Barnstable County Post-Employment Welfare Benefit Plan (the Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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2. Summary of Significant Accounting Policies (continued)

l) Unearned Revenue – Unearned revenue consists primarily of receipts received to fund future Authority operations. Such amounts are recognized as revenue in subsequent periods as they are earned.

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 Barnstable County Retirement Association (BCRA) and additions to/deductions from the BCRA’s fiduciary net position have been determined on the same basis as they are reported by BCRA. 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 2019, the Authority has reported deferred outflows and inflows that are related to its pension and OPEB plans.

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

p) Investments – Investments consist of short term investments in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool that is overseen by the Massachusetts State Treasurer. MMDT is recorded at its net asset value per share (NAV) which is equal to \$1.00 per share.

3. Cash, Cash Equivalents and Investments

The essential risk information associated with the Authority’s deposits and investments is as follows:

a) Investment Policy

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, and units of the MMDT.

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3. Cash, Cash Equivalents and Investments (continued)

b) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority's deposits may 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 Federal Depository Insurance Corporation (FDIC) and Massachusetts Depositors Insurance Fund (DIF) insured or are collateralized with securities held by the pledging financial institution's trust department or agent in the pledging financial institution's name.

The total amounts of Authority deposits in financial institutions, per the bank statements, at June 30, 2019 and 2018 are fully insured by the FDIC or DIF.

c) Interest Rate Risk

As of June 30, 2019, the Authority's primary short-term investment was in the State Treasurer's Investment Pool, MMDT. The fair value of this investment was \$151,779, and its average maturity is less than one year.

d) Credit Risk

As of June 30, 2019, the Authority's investment in the MMDT was not rated.

e) Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Due to the fact, the MMDT is measured at net asset value, it is not required to be measured within the fair value hierarchy described above.

f) Liquidity

MMDT does not place any limitations or restrictions on participant withdrawals.

Cash and cash equivalents reported in the accompanying statement of net position as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Current asset - cash and cash equivalents	\$ 100,352	\$ 188,133
Restricted assets - cash and cash equivalents	171,880	218,389
	\$ 272,232	\$ 406,522

Restricted cash is segregated from operating cash due to being restricted for capital asset purchases, the reserve for extraordinary expense and the stabilization fund.

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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 Act (MAP-21), of 2012 and the Fixing America's Surface Transportation Act (FAST), of 2015. Further, MassDOT, the Town of Nantucket and certain private entities 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:

	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Operating assistance		
United States Department of Transportation - Pass-through grant through the Commonwealth Operating grant Rural area assistance	\$ 608,950	\$ 545,730
Local operating assistance to be billed to the Towns constituting the Authority and paid by the Commonwealth to the Authority	1,021,105	563,338
Total operating assistance	1,630,055	1,109,068
Less noncurrent portion	(602,595)	(155,036)
Total current operating assistance	\$ 1,027,460	\$ 954,032
<u>Noncurrent</u>		
Capital assistance		
Commonwealth of Massachusetts	\$ 58,078	\$ 91,740
Total capital assistance	\$ 58,078	\$ 91,740

6. Other Current Assets

The other current asset balance includes a motor vehicle parts and fuel inventory for 2019 and 2018 of approximately \$17,000 and \$6,000, respectively. This inventory is stated at the lower of cost or market on a first-in, first-out basis.

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7. Capital Assets and Depreciation

The capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and structures	\$ 745,722	\$ 754,534	\$ 21,153	\$ 1,479,103
Vehicles	4,618,130	103,520	2,470	4,719,180
Equipment	355,861	100,509	7,865	448,505
Intangible asset	165,930	41,569	23,000	184,499
Subtotal	<u>5,885,643</u>	<u>1,000,132</u>	<u>54,488</u>	<u>6,831,287</u>
Accumulated depreciation	<u>3,490,127</u>	<u>557,732</u>	<u>45,992</u>	<u>4,001,867</u>
Net depreciable and net capital assets	<u>\$ 2,395,516</u>	<u>\$ 442,400</u>	<u>\$ 8,496</u>	<u>\$ 2,829,420</u>

The capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and structures	\$ 738,632	\$ 9,272	\$ 2,182	\$ 745,722
Vehicles	5,260,982	113,118	755,970	4,618,130
Equipment	395,553	14,244	53,936	355,861
Intangible asset	133,550	70,000	37,620	165,930
Subtotal	<u>6,528,717</u>	<u>206,634</u>	<u>849,708</u>	<u>5,885,643</u>
Accumulated depreciation	<u>3,787,630</u>	<u>521,999</u>	<u>819,502</u>	<u>3,490,127</u>
Net depreciable and net capital assets	<u>\$ 2,741,087</u>	<u>\$ (315,365)</u>	<u>\$ 30,206</u>	<u>\$ 2,395,516</u>

Depreciation expense for 2019 and 2018 was \$557,732 and \$521,999, respectively.

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8. Notes Payable

Revenue Anticipation Note

During the year ended June 30, 2019, the following changes occurred in the Authority's revenue anticipation notes (RANs):

		<u>2019</u>
New notes issued	\$	375,000
Notes retired		-
Ending balance		<u><u>375,000</u></u>

The RAN outstanding at June 30, 2019, has an interest rate of 2.45% and is due in August, 2019. Further, the note is guaranteed by the Commonwealth of Massachusetts.

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.

Direct Borrowing

During the current year, the Authority obtained an unsecured bank loan dated July 3, 2018, due December 31, 2018, with interest at 3.50%, in the amount of \$200,000. This note was paid in full prior to the due date. The loan was obtained to finance a short-term cash flow problem.

9. 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 for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expendable		
Restricted for capital assets	\$ 26,773	\$ 11,643
Nonexpendable		
Restricted by enabling legislation		
Stabilization fund	92,091	92,091
Reserve for extraordinary expense	79,789	79,789
	<u>171,880</u>	<u>171,880</u>
	<u><u>\$ 198,653</u></u>	<u><u>\$ 183,523</u></u>

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10. Leases

Operating lease

At June 30, 2019, the Authority has a noncancelable operating lease commitment with terms in excess of one year.

The future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2020	22,512
2021	22,512
2022	22,512
2023	22,512
2024	22,512
2025 - 2028	73,164
	<u>\$ 185,724</u>

Aggregate rental expense was \$48,930 and \$48,276 in 2019 and 2018, respectively. The lessor related to this rental expense is the Town of Nantucket, a related party.

11. Employees' Retirement Benefits

Pension Plan

General Information about the Pension Plan

Plan Description – The Authority provides employees retirement benefits through the Barnstable County Retirement Association (BCRA). The Plan is a cost-sharing, multiple-employer, defined benefit pension plan. The Plan is a member of the Massachusetts Contributory Retirement System and is governed by Massachusetts General Laws, Chapter 32. The Public Employees Retirement Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's retirement system. Oversight of the BCRA 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 750 Attucks Lane, Hyannis, MA 02601.

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.

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11. 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 between 5% and 11% of their covered compensation, depending on plan entry date. The Authority's statutory required contribution rate for the year ended June 30, 2019, was 21.57% 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 \$36,639 for the year ended June 30, 2019.

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

At June 30, 2019 and 2018, the Authority reported a liability of \$452,305 and \$389,444, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The Authority's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2018, the Authority's proportion of net pension liability was .057 percent.

For the year ended June 30, 2019 and 2018, the Authority recognized pension expense of \$56,837 and \$45,780, respectively, and reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ 4,257
Net difference between expected projected and actual investment income	26,415	
Changes in assumptions	37,866	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,298	71
Total deferred outflows and inflows of resources	<u>\$ 66,579</u>	<u>\$ 4,328</u>

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11. 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>	
2020	\$ 19,487
2021	12,442
2022	11,969
2023	18,222
2024	131
	<u>\$ 62,251</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of January 1, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost method
Amortization method	Appropriations increase at 5.28 percent
Asset valuation method	The net pension liability is calculated using the market value of assets. The BCRA also uses an actuarial value of assets that gradually reflects year-to-year changes in the market value of assets in determining contribution requirements.
Remaining amortization period	17 years
Inflation	3.25%
Salary increases	Varies with length of service with ultimate rate of 4.00 percent
Investment rate of return	7.375 percent, net of pension plan investment expense, including inflation
Cost of living adjustments	3.0 percent of first \$18,000 of retirement income.
Rates of retirement	Varies based on age
Rates of disability	Assumes 55 percent of all disabilities are accidental disabilities.
Mortality rates:	
Pre-retirement	The RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017.
Healthy Retiree	The RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017.
Disabled Retiree	The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017.

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11. 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)

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

The long-term expected 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 returns 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 and subtracting expected investment expenses and a risk margin. The target allocation and projected 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	21.00%	6.16%
International developed markets equity	13.00%	6.69%
International emerging markets equity	5.00%	9.47%
Core fixed income	15.00%	1.89%
High-yield fixed income	8.00%	4.00%
Real estate	10.00%	4.58%
Commodities	4.00%	4.77%
Hedge fund, GTAA, Risk parity	11.00%	3.68%
Private equity	13.00%	10.00%
Total	100.00%	

Discount rate – The discount rate used to measure the total pension liability was 7.375 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 rates, actuarially determined. For this purpose, only employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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11. 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 7.375 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 (6.375 percent) or 1-percentage-point higher (8.375 percent) than the current rate:

	1% Decrease <u>(6.375%)</u>	Discount Rate <u>(7.375%)</u>	1% Increase <u>(8.375%)</u>
Authority's proportionate share of the net pension liability	\$ 577,379	\$ 452,305	\$ 347,095

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

Other Postemployment Benefits (OPEB)

Plan Description - The Authority has established a plan to provide postemployment healthcare benefits through the Barnstable County Postemployment Welfare Benefit Plan. The Plan provides 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. At June 30, 2019, membership consisted of 2 active plan members and 0 retired plan members.

Benefits Provided – Medical coverage 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. 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.

Contributions – Contributions are voluntary and determined by the Authority. Presently, contributions are on a pay-as-you-go basis. For years ended June 30, 2019 and 2018, the Authority did not make any contributions to the Plan.

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11. Employees' Retirement Benefits (continued)

Other Postemployment Benefits (OPEB)

Net OPEB Liability

The Authority's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation and the related update to June 30, 2019 (the measurement date), were determined using the following actuarial assumptions, applied to all periods included in the measurement: the entry age normal cost method, an inflation rate of 2.75%, a 2.75% discount rate, projected salary increase of 3% annually, a long-term healthcare cost trend rate of 4.5% per year and mortality projected for both males and females using the RP-2014 Mortality Table projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 through June 30, 2018.

The development of a long-term expected rate of return on OPEB plan investments does not apply, due to the fact that there are not any invested assets.

Discount Rate – The discount rate used to measure the total OPEB liability was 2.75%. This discount rate was equal to the prevailing municipal bond rate for the Authority's unfunded periods.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balance as reported 6/30/2018	\$ 355,629	\$ -	\$ 355,629
Prior period adjustment	27,762		27,762
Balance as adjusted 6/30/2018 (valuation date)	383,391	-	383,391
Charges for the year:			
Service Cost	16,490		16,490
Interest	14,316		14,316
Changes in assumptions	80,811		80,811
Differences between actual and expected experience	(98,470)		(98,470)
Net changes	13,147	-	13,147
Balance at 6/30/2019 (measurement date)	\$ 396,538	\$ -	\$ 396,538

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11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the Authority if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate, for the measurement period ended June 30, 2019:

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
Net OPEB Liability	\$ 465,511	\$ 396,538	\$ 343,586

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability calculated using the current healthcare cost trend rates that are 1-percentage-point lower (3.5%) or 1-percentage-point higher (5.5%) than the current healthcare cost trend rates for the measurement period ended June 30, 2019:

	1% Decrease 3.5%	Current Rate 4.5%	1% Increase Rate 5.5%
Net OPEB Liability	\$ 329,932	\$ 396,538	\$ 481,477

Net OPEB Liability, OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Authority reported a net OPEB liability of \$396,538, OPEB expense of \$23,257 and reported deferred outflows of resources and deferred inflows of resources related OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 81,837
Changes in assumptions	67,161	27,397
Total	\$ 67,161	\$ 109,234

The amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year	
2020	\$ (7,549)
2021	(7,549)
2022	(7,549)
2023	(7,549)
2024	(7,310)
Thereafter	(4,567)

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11. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Trust report. A copy of the report may be obtained by contacting the Director of Finance/Treasurer, Barnstable County Superior Court House, P.O. Box 427, Barnstable, MA 02630.

12. Commitments and Contingencies

- a) 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.
- b) 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; and natural disasters. The Authority carries commercial insurance to cover these potential losses. Settlements have not exceeded coverages 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.

- c) Purchase Commitments – The Authority does not have any material purchase commitments at June 30, 2019.

13. 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. There was no change in the reserve for 2019 and 2018. The aggregate reserve balance at June 30, 2019 and 2018 was \$79,789, in both years.

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

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Notes to Financial Statements
June 30, 2019 and 2018

14. Subsequent Events

Subsequent to June 30, 2019, the Authority issued a revenue anticipation note of \$500,000 with an average interest rate of 2.25%. This RAN will mature in August, 2020 and is guaranteed by the Commonwealth of Massachusetts.

The Authority evaluated subsequent events through October 18, 2019, 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.

15. Compensation Disclosures (unaudited)

The Massachusetts Executive Office of Administration and Finance, pursuant to Massachusetts General Law 810 CMR 53.03(2) requires the following compensation disclosures.

The Administrator's (CEO) salary for fiscal year 2019 was \$101,480. In addition, the CEO is in a (1) health insurance plan contributing 10% of the premium, (2) a pension plan contributing 10% of regular salary and (3) a group life insurance plan contributing 50% of the premium.

Advisory Board members and related officers do not receive compensation.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability (Unaudited)
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.057%	0.057%	0.057%	0.057%	0.057%
Authority's proportionate share of the net pension liability	\$ 452,305	\$ 389,444	\$ 401,799	\$ 359,774	\$ 322,696
Authority's covered-employee payroll	\$ 169,888	\$ 162,906	\$ 161,804	\$ 158,446	\$ 149,925
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	266.24%	239.06%	248.32%	227.06%	215.24%
Plan fiduciary net position as a percentage of the total pension liability	57.63%	61.86%	57.28%	58.10%	60.43%

Notes to Required Supplementary Information

Measurement Date

The amounts presented in this schedule were determined as of December 31, 2018.

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.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information
Schedule of Pension Contributions (Unaudited)
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory required contribution	\$ 36,639	\$ 34,789	\$ 33,027	\$ 31,438	\$ 30,338
Contributions in relation to the actuarially required contribution	<u>(36,639)</u>	<u>(34,789)</u>	<u>(33,027)</u>	<u>(31,438)</u>	<u>(30,338)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 169,888	\$ 162,906	\$ 161,804	\$ 158,446	\$ 149,925
Contributions as a percentage of its covered-employee payroll	21.57%	21.36%	20.41%	19.84%	20.24%

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

Governmental employers are required to pay an annual appropriation as established by PERAC. 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 the Plan's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios (Unaudited)
For the Measurement Periods Ended June 30

Measurement Period	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 16,490	\$ 16,747	\$ 16,747
Interest on the total OPEB liability	14,316	11,015	11,015
Changes in assumptions	80,811		(41,095)
Differences between actual and expected experience	(96,883)		
Benefit payments		(1,587)	(1,587)
Net change in OPEB liability	14,734	26,175	(14,920)
Total OPEB liability - beginning	381,804	355,629	370,549
Total OPEB liability - ending	396,538	381,804	355,629
Plan Fiduciary Net Position			
Contribution - employer	-	1,587	1,587
Benefit payments	-	(1,587)	(1,587)
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	-	-	-
Plan fiduciary net position - ending	-	-	-
Net OPEB Liability - ending	\$ 396,538	\$ 381,804	\$ 355,629
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered-employee payroll	156,971	162,906	161,804
Net OPEB liability as a percentage of covered-employee payroll	252.62%	234.37%	219.79%

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.

Significant assumptions and methods

For assumptions and methods used see Note 11.

Changes in assumptions from last actuarial valuation

The discount rate changed from 3.58% to 2.75%, the expected long-term medical trend was updated to 4.50%, and the mortality table was updated to the RP-2014 Mortality Table projected generationally with scale MP-2016 for both males and females.

See accompanying independent auditors' report

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information
Schedule of OPEB Contributions (Unaudited)
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarilly determined contribution	\$ 35,549	\$ 1,587	\$ 1,587
Contributions in relation to the actuarilly determined contribution	-	1,587	1,587
Contribution deficiency (excess)	<u>\$ 35,549</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 156,971	\$ 162,906	\$ 161,804
Contributions as a percentage of its covered-employee payroll	0.00%	0.97%	0.98%

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.

Significant assumptions and methods

For assumptions and methods used see Note 11.

Changes in assumptions from last actuarial valuation

The discount rate changed from 3.58% to 2.75%, the expected long-term medical trend was updated to 4.50%, and the mortality table was updated to the RP-2014 Mortality Table projected generationally with scale MP-2016 for both males and females.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Schedule 1

STATEMENT OF COSTS (Unaudited)
JUNE 30, 2019
FORM 1

	<u>Rural Area Service</u>
Operating Costs	
RTA administrative costs (excluding depreciation)	\$ 156,214
Purchased services	
Fixed route	2,417,505
Demand response	272,445
Debt Service	<u>9,416</u>
Total Operating Costs	<u>2,855,580</u>
 Federal Operating Assistance	
FTA operating and administrative	625,487
 Revenues	
Operating	
Farebox Revenue	608,888
Other third party reimbursement	121,776
Other Revenues	
Advertising	510
Interest income	6,302
Rental income	48,500
Miscellaneous	<u>10,602</u>
Total Other Revenues	<u>65,914</u>
 Net Operating Deficit	 1,433,515
 Adjustments	
Pension and OPEB	<u>(80,041)</u>
Total Adjustments	<u>(80,041)</u>
 Net Cost of Service	 1,353,474
 Net Cost of Service Funding	
Local Assessments	865,290
State contract assistance	<u>488,184</u>
	<u><u>1,353,474</u></u>

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)

Schedule 2

Statement of Costs-Calculation Worksheet and Supplementary Data (Unaudited)
June 30, 2019
Form 2

Proof calculations and other required information:

Prior year operating expenses, net of fully funded costs brokerage service	\$ 2,025,142
Allowable percentage increase	2.5%
Prior year, net operating expenses times 2.5%	<u>50,629</u>
Current year, allowable net operating expense	2,075,771
Plus adjustments	
ADA Expenses in excess of 2.5%	80,159
New service	<u>699,650</u>
Total operating cost	<u><u>2,855,580</u></u>
Amount of extraordinary expenses	0
Prior year local assessment	<u>418,510</u>
Percentage of extraordinary expense to prior local assessment (not to exceed 3%)	<u>0.0%</u>
Aggregate amount of reserve account at June 30.	79,789
Prior year local assessment	<u>418,510</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)	<u>19.1%</u>
State the management fee paid to major service providers as a percentage of operating costs incurred.	6.68%
State the percentage of benefits paid by RTA on behalf of RTA employees for:	
Group life and accidental death insurance	50.0%
Group health insurance	90.0%
Stabilization Fund	
Current year	
Aggregate balance	92,091

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Advisory Board
Nantucket Regional Transit Authority

We have audited, in accordance with the 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, the financial statements of the Nantucket Regional Transit Authority (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruce D. Norling, CPA, P.C.

October 18, 2019