

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

Basic Financial Statements, Supplementary Data
For the Year Ended June 30, 2018

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

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CAPE COD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2018

The Reporting Entity

The Cape Cod 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 October 13, 1976, 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.

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 plan 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.

CAPE COD REGIONAL TRANSIT AUTHORITY
MANGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018

Condensed Financial Information

Statement of Net Position
(000 omitted)

	<u>2018</u>	<u>2017</u>
Current assets	\$ 7,890	\$ 7,652
Capital assets, net	27,829	27,050
Restricted and noncurrent assets	4,360	2,508
Total assets	<u>40,079</u>	<u>37,210</u>
Deferred outflows of resources	629	198
Total assets and deferred outflows of resources	<u>40,708</u>	<u>37,408</u>
Restricted and noncurrent liabilities	13,371	11,151
Current liabilities	3,131	2,921
Total liabilities	<u>16,502</u>	<u>14,072</u>
Deferred inflows of resources	541	394
Total liabilities and deferred inflows of resources	<u>17,043</u>	<u>14,466</u>
Net position		
Invested in capital assets	27,829	27,050
Restricted	1,013	1,071
Unrestricted	(5,177)	(5,179)
Total net position	<u>\$ 23,665</u>	<u>\$ 22,942</u>

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 13,665	\$ 12,937
Operating expenses		
Cost of transportation service, maintenance and administration	27,602	25,725
Depreciation	4,456	3,897
	<u>32,058</u>	<u>29,622</u>
Operating loss	<u>(18,393)</u>	<u>(16,685)</u>
Nonoperating revenues and (expenses)		
Operating assistance	14,004	13,026
Other	(73)	(58)
	<u>13,931</u>	<u>12,968</u>
Loss before capital contribution	<u>(4,462)</u>	<u>(3,717)</u>
Capital contributions	5,185	3,279
Change in net position	723	(438)
Net position		
Beginning of year, as reported	22,942	23,378
Cumulative effect of change in accounting principle - OPEB		2
Beginning of year, as restated	<u>22,942</u>	<u>23,380</u>
End of year	<u>\$ 23,665</u>	<u>\$ 22,942</u>

CAPE COD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2018

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 \$23,665,000.

The Authority's net position increased by approximately \$723,000 during the current year. This was due primarily to operating revenues of \$13,665,000, nonoperating revenues (primarily grants) of \$13,931,000 and capital contributions of \$5,185,000, less operating expenses of \$32,058,000.

The Authority's total assets increased in 2018 versus 2017 by \$2,869,000 (7.7%).

Total current assets increased in 2018 versus 2017 by \$238,000 (3.1%). This was caused by a decrease in cash and cash equivalents of \$30,000 and increases in receivables for operating assistance of \$158,000 and other current assets of \$110,000.

The restricted and noncurrent assets increased in 2018 versus 2017 by \$1,852,000 (73.8%). This was caused by increases in restricted cash and equivalents of \$66,000, receivable for capital assistance of \$1,890,000 and a decrease in the receivable for operating assistance of \$104,000.

Deferred outflows of resources increased in 2018 versus 2017 by \$431,000 (217.7%). This was caused by increases in deferred outflows related to pensions of \$416,000 and OPEB of \$15,000.

Total net capital assets increased in 2018 versus 2017 by \$779,000 (2.9%). This was caused by capital acquisitions of \$5,275,000, less depreciation of \$4,456,000 and removals of \$40,000. These acquisitions were funded by Federal and State capital grants.

Total debt increased by approximately \$2,430,000 (17.3%). This was caused primarily by increases of \$2,173,000 in accounts payable, both operating and capital asset related, unearned revenue and increases in other postemployment benefits of \$7,000 and net pension liability of \$403,000, less decreases in notes payable of \$153,000.

Deferred inflows of resources related to pensions increased by \$147,000 (37.3%). This was caused by increases in deferred inflows related to pension of \$62,000 and OPEB of \$85,000.

The beginning net assets was restated pursuant to GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, by approximately \$2,000 (i.e., increased).

CAPE COD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2018

Revenues

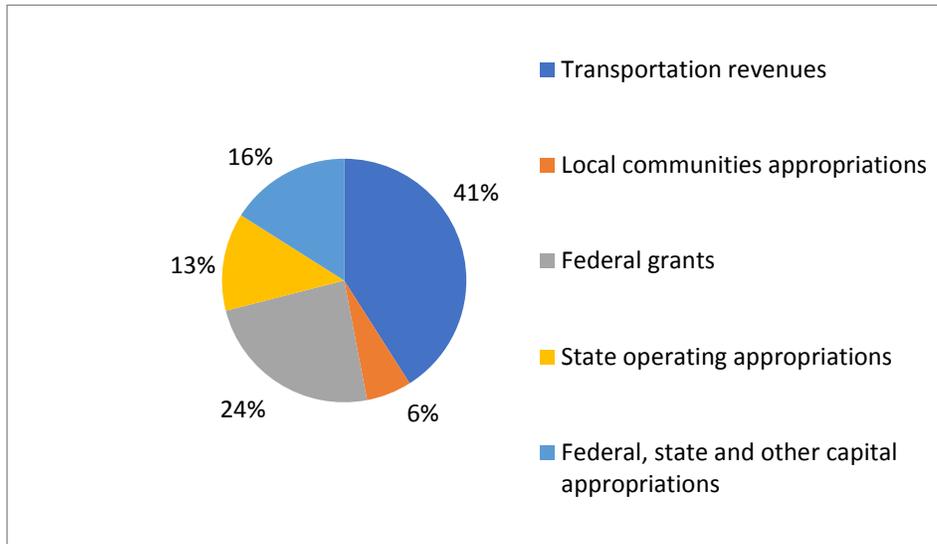
Total operating revenue increased in 2018 versus 2017 by \$728,000 (5.6%).

Nonoperating revenue increased in 2018 versus 2017 by \$963,000 (7.4%). This increase was caused primarily by an increase in federal, state and local funding.

Total capital contributions increased in 2018 versus 2017 by \$1,906,000 (58.1%). This was caused primarily by an increase in federal funding.

The change in net position increased in 2018 versus 2017 by \$1,161,000 (2.7%).

Revenues by source:



CAPE COD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2018

Operating Expenses

Total operating expenses increased in 2018 versus 2017 by \$2,436,000 (8.2%). This was caused by increases in the cost of transportation service, maintenance, administration and depreciation expense.

The cost of transportation services increased in 2018 versus 2017 by \$1,289,000 (6.4%). This was caused primarily by increases related to human service transportation expenses which, for the most part, are fully reimbursed by the Commonwealth's Human Service Transportation Department.

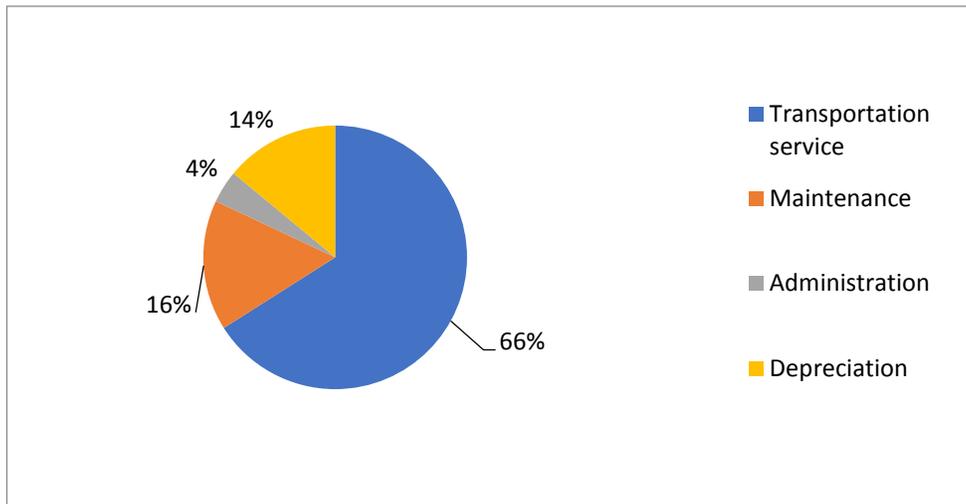
Maintenance expense increased in 2018 versus 2017 by \$1,150,000 (29.4%). This was caused by payroll increases related to the union contract and overtime, and by increases due to additional parts needed.

Administration expense decreased in 2018 versus 2017 by \$563,000 (32.9%). This was caused primarily by cost savings instituted by the Authority.

Depreciation expense increased in 2018 versus 2017 by \$559,000 (14.3%). 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.

The Authority's operating loss increased in 2018 versus 2017 by \$1,708,000 (10.2%).

Expenses by source:



CAPE COD REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
JUNE 30, 2018

Capital Assets

The Authority's capital assets as of June 30, 2018, amounted to \$27,829,000, net of accumulated depreciation. The Authority's investment in capital assets includes land, contracts in progress, buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2018, the Authority invested \$5,275,000 in various capital assets. Capital asset additions were funded through Federal and State capital grants. During the current year, the most significant capital asset events were the acquisition of vehicles and related equipment of \$4,554,000 and improvement to buildings of \$589,000.

More detailed information regarding the Authority's capital asset activities for 2018 can be found in the notes to the financial statements (Note 7).

Revenue Anticipation Note

The Authority's revenue anticipation notes decreased in 2018 versus 2017 by \$150,000. This was possible due to improved cash flow procedures instituted by the Authority. At year-end, the Authority had \$7,756,000 of Revenue Anticipation Notes outstanding.

Economic Factors

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

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Farebox revenue	\$ 1,528,000	\$ 1,439,000	\$ 1,423,000
Contract revenue	10,744,000	11,178,000	11,863,000

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 Thomas Cahir, Administrator, Cape Cod Regional Transit Authority, 215 Iyannough Road, P.O. Box 1988, Hyannis MA 02601.

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

The Advisory Board
Cape Cod Regional Transit Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Cape Cod Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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 vi 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, included in the accompanying schedules on pages 28 through 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 November 9, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

November 9, 2018

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

Statement of Net Position
June 30, 2018

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 339,511
Receivables	6,673,908
Other current assets	877,070
Total current assets	<u>7,890,489</u>
Restricted and noncurrent assets	
Restricted assets	
Cash and cash equivalents	322,489
Receivables capital assistance	3,467,158
Total restricted assets	<u>3,789,647</u>
Receivables	569,862
Capital assets, net	27,829,417
Total restricted and noncurrent assets	<u>32,188,926</u>
Total assets	40,079,415
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to OPEB	14,704
Deferred outflows of resources related to pension	613,961
Total deferred outflows of resources	<u>628,665</u>
Total assets and deferred outflows of resources	<u>40,708,080</u>
LIABILITIES	
Current liabilities	
Accounts payable	2,769,754
Accrued expense	310,941
Notes payable	50,000
Total current liabilities	<u>3,130,695</u>
Restricted and noncurrent liabilities	
Liabilities payable from restricted assets	
Accounts payable	2,565,151
Unearned revenue	211,853
Total liabilities payable from restricted assets	<u>2,777,004</u>
Notes payable less current maturities	7,705,642
Other postemployment benefits	811,583
Net pension liability	2,077,007
Total restricted and noncurrent liabilities	<u>13,371,236</u>
Total liabilities	<u>16,501,931</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to OPEB	84,710
Deferred inflows of resources related to pension	456,164
Total deferred inflows of resources	<u>540,874</u>
Total liabilities and deferred inflows of resources	<u>17,042,805</u>
NET POSITION	
Invested in capital assets	27,829,417
Restricted	1,012,643
Unrestricted	(5,176,785)
Total net position	<u>\$ 23,665,275</u>

See accompanying notes to financial statements

CAPE COD 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, 2018

Operating revenues	
Transportation services	\$ 13,286,217
Parking	279,459
Other income	99,507
	13,665,183
Operating expenses	
Transportation service	21,396,742
Maintenance	5,059,094
General and administration	1,145,984
	27,601,820
Depreciation expense	4,456,678
	32,058,498
Operating loss	(18,393,315)
Nonoperating revenues and (expenses)	
Operating assistance grants	
Federal	7,761,984
Commonwealth of Massachusetts	4,351,575
Local	1,891,339
Interest expense	(73,235)
	13,931,663
Loss before capital contributions	(4,461,652)
Capital contributions	
Federal	4,232,039
Commonwealth of Massachusetts	928,507
Other	24,109
	5,184,655
Change in net position	723,003
Total net position	
Beginning of year, as reported	22,939,716
Cumulative effect of a change in accounting principle - OPEB	2,556
Beginning of year, as restated	22,942,272
End of year	\$ 23,665,275

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

Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from customers	\$ 13,636,128
Payments to vendors and suppliers	(26,194,787)
Payments to employees	(1,014,237)
Payments of fringe	<u>(213,841)</u>
Net cash used in operations	<u>(13,786,737)</u>
Cash flows from noncapital financing activities	
Proceeds from revenue anticipation notes	7,817,702
Repayment of revenue anticipation notes	(7,900,000)
Operating assistance grants	14,040,468
Interest expense	<u>(158,394)</u>
Net cash provided by noncapital financing activities	<u>13,799,776</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(1,742,255)
Capital contributions	
United States Department of Transportation	1,185,046
Commonwealth of Massachusetts	557,297
Proceeds from sale of equipment	<u>10,405</u>
Net cash used in capital and related financing activities	<u>10,493</u>
Cash flows from investing activities	
Interest income	<u>13,192</u>
Net cash provided by investing activities	<u>13,192</u>
Net decrease in cash and cash equivalents	36,724
Cash and cash equivalents at beginning of year	<u>625,276</u>
Cash and cash equivalents at end of year	<u>\$ 662,000</u>
Reconciliation of operating loss to net cash used in operations	
Operating loss	\$ (18,393,315)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	4,456,678
Postemployment healthcare expense	79,219
Pension expense	49,012
Loss (gain) on sale of assets	4,975
Changes in assets and liabilities:	
Receivables, net	(34,030)
Other assets	(110,097)
Accounts payable and accrued expense	<u>160,821</u>
Net cash used in operations	<u>\$ (13,786,737)</u>
Supplemental disclosures of noncash transactions	
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$ 1,551,406
Increase in accounts payable related to capital expenditures	\$ 1,957,409

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

1. The Authority and Operators

The Cape Cod 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 October 13, 1976, 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 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 the Federal government, the Commonwealth, and the member communities. In addition, the Authority receives federal and state capital grants that are used to finance acquisitions and improvements to facilities and equipment.

The operation and maintenance of the Authority is performed by private sector transportation companies (the Operators) under the terms and agreements whereby the carriers provide mass transit along such routes and according to such schedules as may be defined by the Authority. In return, the Authority has agreed to reimburse the Operator for all costs and expenses which are reasonable and necessary for the efficient operation of the system.

The Authority also has a Human Service Brokerage program, whereby the Authority coordinates with various human service agencies to provide their clients with transportation services. The actual services are provided by various private sector transportation companies.

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.

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

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements – In June 2015, the GASB issued GASB Statement No. 75, *Accounting for and Financial Reporting for Post-employment Benefits Other than PENSIONS*. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The adoption of this standard had the following effect on the Authority's financial statements: (1) the recording of a net OPEB liability of \$811,583, OPEB expense of \$93,923, deferred outflows of resources related to OPEB of \$14,704 and deferred inflows of resources of \$84,710. Further, the beginning net position had to be restated (i.e., increased) in the amount of \$2,556. (2) the Authority also implemented significant new note disclosures and new required supplementary information.

In March 2016, the GASB issued GASB No. 82, *Pension Issues – An Amendment to GASB statements No. 67, No. 68 and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standard of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement No. 67, Statement No. 68, or Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

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

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

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements (continued)

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The adoption of the 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, 2018 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>
83 <i>Certain Asset Retirement Obligations</i>	2019
84 <i>Fiduciary Activities</i>	2019
87 <i>Leases</i>	2020
88 <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i>	2019

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*.

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

2. Summary of Significant Accounting Policies (continued)

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, an OPEB restricted cash account and the reserve for extraordinary expenses. Restricted liabilities are amounts payable from the restricted assets.

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

	<u>Years</u>
Building and structures	7 – 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) Available Unrestricted Resources – The Authority’s policy is to utilize available unrestricted resources prior to restricted resources.

j) 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 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.

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2. Summary of Significant Accounting Policies (continued)

k) Deferred Outflows/Inflows of Resources

In order to distinguish them from assets and liabilities, 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. For fiscal 2018, the Authority reported deferred outflows and deferred inflows related to its pension and OPEB plans.

l) 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 Postemployment 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.

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

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 has a formal policy with regard to custodial credit risk. The policy is to invest its funds in deposits that are fully FDIC insured or collateralized by irrevocable letters of credit established in favor of the Authority. At June 30, 2018, the Authority does not have any uninsured or uncollateralized bank deposits.

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

Current assets - cash and cash equivalents	\$ 339,511
Noncurrents assets - restricted funds	322,489
Total	\$ 662,000

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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 (MAP-21) Act, of 2012 and the Fixing America's Surface Transportation Act (FAST), of 2015. Further, MassDOT and the member communities provide the local share of both operating and capital funding.

5. Receivables

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

United States Department of Transportation -	
Direct Federal Grants	
Operating grants	\$ 2,710,848
Commonwealth of Massachusetts	
Operating grants	
Local operating assistance to be billed by the	
Commonwealth to the Towns constituting the	
Authority and paid by the Commonwealth to	
the Authority	2,551,813
Executive Office of Human Services	
Transportation	1,955,131
Other	<u>25,978</u>
Total Receivables	<u>7,243,770</u>
Less noncurrent receivables	<u>(569,862)</u>
	<u>\$ 6,673,908</u>
Capital assistance	
Commonwealth of Massachusetts	\$ 524,821
Federal grants	<u>2,942,337</u>
	<u>\$ 3,467,158</u>

6. Other Current Assets

The other current asset balance includes inventory of motor vehicle parts and fuel for 2018 of approximately \$293,000. This inventory is stated at the lower of cost or market.

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7. Capital Assets and Depreciation

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 2,294,775	\$ -	\$ -	\$ 2,294,775
Contracts in Progress	24,275		24,275	-
Subtotal	<u>2,319,050</u>	-	<u>24,275</u>	<u>2,294,775</u>
Depreciable capital assets				
Buildings and structures	19,959,265	589,275		20,548,540
Vehicles	23,948,907	4,554,087	2,006,134	26,496,860
Equipment	3,247,591	39,424	20,238	3,266,777
Intangible assets	3,301,877	92,559	1,256,996	2,137,440
Subtotal	<u>50,457,640</u>	<u>5,275,345</u>	<u>3,283,368</u>	<u>52,449,617</u>
Accumulated depreciation	<u>25,726,285</u>	<u>4,456,678</u>	<u>3,267,988</u>	<u>26,914,975</u>
Net depreciable capital assets	<u>24,731,355</u>	<u>818,667</u>	<u>15,380</u>	<u>25,534,642</u>
Net depreciable and net capital assets	<u>\$ 27,050,405</u>	<u>\$ 818,667</u>	<u>\$ 39,655</u>	<u>\$ 27,829,417</u>

The above land amount is inclusive of a related party capital lease in the amount of \$1,430,000, refer to Note 9 for lease details.

Depreciation expense for 2018 was \$4,456,678.

8. Notes Payable

During the year ended June 30, 2018, the following changes occurred in the Authority's revenue anticipation notes (RANs):

Beginning balance	\$ 7,908,184
New notes issued	7,817,701
Notes retired	<u>(7,970,243)</u>
	7,755,642
Less: current maturities	<u>(50,000)</u>
Long-term, less current maturities	<u>\$ 7,705,642</u>

The RAN outstanding at June 30, 2018, has an interest rate of 2.0% (effective interest rate is 1.1% after accounting for premium), and is due in July, 2018. The above balance is inclusive of an unamortized premium of \$5,642.

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8. Notes Payable (continued)

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.

A portion of the RAN (i.e., \$7,700,000) 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.

9. Leases

The Authority rents land, under a capital lease, from the Commonwealth of Massachusetts, a related party, for \$1.00 per year. The lease commenced April 2, 2001 and terminates April 2, 2051. The land's present value as of the commencement date was recorded as a capital asset (i.e., land) and was funded via a Commonwealth capital contribution. The Authority's Hyannis Transportation Center is situated on the land and the Authority pays all operating expenses related to the property.

10. Employees' Retirement Benefits

The Authority sponsors two retirement plans for its employees.

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 systems. 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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10. Employees' Retirement Benefits (continued)

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% to 11% of their covered compensation, depending on plan entry date and their level of compensation. The Authority's contractually required contribution rate for the year ended June 30, 2018, was 20.97% 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 for 2018 and 2017 were \$182,162 and \$135,068, respectively.

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

At June 30, 2018, the Authority reported a liability of \$2,077,007, 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, 2017, the Authority's proportion of net pension liability was .305 percent.

For the year ended June 30, 2018, the Authority recognized pension expense of \$231,174 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>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 135,554
Changes in assumptions	258,831	
Changes in proportion and differences between employer contributions and proportionate share of contributions	355,130	290,855
Differences between expected and actual experience		29,755
	<u>\$ 613,961</u>	<u>\$ 456,164</u>

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10. 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>	
2019	\$ 25,337
2020	24,639
2021	(12,938)
2022	20,363
2023	100,356

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 per year
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 year
Inflation	3.25 percent
Salary increases	Varies by length of service with ultimate rates of 4.0 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 projected generationally with Scale MP-2017.

Investment policy – The pension plan's policy in regard to the allocation of invested assets is established by the Pension Reserve Investment Trust (PRIT) which meets the criteria of an external investment pool. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

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10. 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)

The long-term expected rate of return on pension plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of 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	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTAA, Risk parity	13.00%	3.94%
Private equity	12.00%	10.28%
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 plan member 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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10. 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	\$ 2,724,344	\$ 2,077,007	\$ 1,532,722

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, 2018, membership consisted of 8 active plan members and 2 retired plan members, currently receiving benefits.

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. For year ended June 30, 2018, the Authority made contributions of \$14,704.

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10. Employees' Retirement Benefits (continued)

Other Postemployment Benefits (OPEB)

Net OPEB Liability

The Authority's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Actuarial Assumptions – The total OPEB liability in the June 30, 2016 actuarial valuation and the related update to June 30, 2017 (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 3.5%, a 3.58% discount rate, projected salary increase of 6% decreasing over 9 years to an ultimate level of 4.25%, a long-term healthcare cost trend rate of 7% decreasing by .5% each year to an ultimate level of 4.5% per year and mortality projected for both pre-retirement and post-retirement employees using the RP-2000 Mortality Table projected generationally with Scale BB2D from 2009.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period of July 1, 2014 through June 30, 2016.

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 3.58%. 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 at 6/30/2016 (valuation date)	\$ 801,469	\$ -	\$ 801,469
Charges for the year:			-
Service Cost	82,953		82,953
Interest	25,088		25,088
Changes in assumptions	(98,828)		(98,828)
Contributions		8,312	(8,312)
Benefit payments	(8,312)	(8,312)	-
Net changes	901	-	901
Balance at 6/30/2017 (measurement date)	<u>\$ 802,370</u>	<u>\$ -</u>	<u>\$ 802,370</u>

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10. 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 measurement period ended June 30, 2017:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB Liability	\$ 942,039	\$ 802,370	\$ 690,025

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 (6% year 1 decreasing to 3.5%) or 1-percentage-point higher (8% year 1 decreasing to 5.5%) than the current healthcare cost trend rates for measurement period ended June 30, 2017:

	1% Decrease Rate (6% decreasing to 3.5%	Current Rates Rate (7% decreasing to 4.5%)	1% Increase Rate (8% decreasing to 5.5%
Net OPEB Liability	\$ 671,409	\$ 802,370	\$ 969,377

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

For the year ended June 30, 2018, the Authority reported a net OPEB liability of \$811,583, OPEB expense of \$92,923 and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 84,710
Contributions made subsequent to the measurement date	14,704	
Total	\$ 14,704	\$ 84,710

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10. 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)

The \$14,704 reported as deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability during fiscal year 2019. All other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year</u>	
2019	\$ (14,118)
2020	(14,118)
2021	(14,118)
2022	(14,118)
2023	(14,118)
2024	(14,120)
	<u>\$ (84,710)</u>

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.

11. Commitments and Contingencies

- a) Purchase commitments – As of June 30, 2018, the Authority had purchase commitments of approximately \$157,000 related to a window replacement project at its maintenance facility.
- b) Litigation – In the normal course of operations, the Authority has been named in various claims and litigations. 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.
- c) 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 are 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.

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11. Commitments and Contingencies (continued)

- d) 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 for which the Authority carries commercial insurance. Settlements have not exceeded insurance 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.

12. Subsequent Event

Subsequent to June 30, 2018, the Authority issued a revenue anticipation note of \$7,700,000 with an average interest rate of 2.5% (effective interest rate of 1.93% after accounting for premium). This RAN will mature in July, 2019 and is guaranteed by the Commonwealth of Massachusetts.

The Authority evaluated subsequent events through November 9, 2018, 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.

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. The Authority increased the reserve for extraordinary expense by \$56,062 and \$54,695 in 2018 and 2017, respectively. The aggregate reserve balance at June 30, 2018 and 2017 was \$211,853 and \$155,791, respectively. The reserve for extraordinary expense is included in unearned revenue in the accompanying statement of net position.

14. Fuel Program

The Authority's fuel program operates under a non-speculative philosophy and transactions are limited to expected volumes anticipated in the normal course of operations. The Authority joined a State negotiated contract which leverages the purchasing power of the Commonwealth to purchase fuel at bulk prices based on a daily tanker pricing of landings at the Boston Commercial Pier. The daily rate is subject to change daily but the delivery charge is a negotiated fixed rate based on geographic zones. The contracts terminate annually on September 30 with an option to extend each year for the next two years. The Commonwealth will rebid the contract at that time.

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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) base salary for fiscal year 2018 was \$131,948. In addition, the CEO is in a (1) health insurance plan contributing 75% of the premium, and (2) a pension plan contributing 5% of regular salary.

The Deputy Administrator's (DA) base salary for fiscal year 2018 was \$48,537. In addition, the DA is in a (1) health insurance plan contributing 75% of the premium, and (2) a pension plan contributing 11% of regular salary.

The Chief Financial Officer (CFO) base salary for fiscal year 2018 was \$57,221. In addition, the CFO is in a health insurance plan contributing 75% of the premium.

Advisory Board members and related officers do not receive compensation.

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Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability (Unaudited)
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.305%	0.238%	0.286%	0.324%
Authority's proportionate share of the net pension liability	\$ 2,077,007	\$ 1,674,157	\$ 1,798,849	\$ 1,828,599
Authority's covered-employee payroll	\$ 868,833	\$ 674,182	\$ 792,231	\$ 849,571
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	239.06%	248.32%	227.06%	215.24%
Plan fiduciary net position as a percentage of the total pension liability	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, 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.

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Required Supplementary Information
Schedule of Pension Contributions (Unaudited)
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially required contribution	\$ 182,162	\$ 135,068	\$ 157,188	\$ 171,914
Contributions in relation to the actuarially required contribution	(182,162)	(135,068)	(157,188)	(171,914)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 868,833	\$ 674,182	\$ 792,231	\$ 849,571
Contributions as a percentage of its covered-employee payroll	20.97%	20.03%	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.

CAPE COD 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	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 82,953
Interest on the total OPEB liability	25,088
Changes in assumptions	(98,828)
Benefit payments	(8,312)
Net change in OPEB liability	<u>901</u>
Total OPEB liability - beginning	<u>801,469</u>
Total OPEB liability - ending	<u><u>802,370</u></u>
Plan Fiduciary Net Position	
Contribution - employer	\$ 8,312
Benefit payments	<u>(8,312)</u>
Net change in plan fiduciary net position	<u>-</u>
Plan fiduciary net position - beginning	<u>-</u>
Plan fiduciary net position - ending	<u><u>-</u></u>
Net OPEB Liability - ending	<u><u>\$ 802,370</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered-employee payroll	711,100
Net OPEB liability as a percentage of covered-employee payroll	112.84%

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 actuarial cost method was changed from the Projected Unit Credit Method to the Entry Age Normal Method to comply with the requirements set forth in GASB 74 and 75. Further, the discount rate changed from 2.85% to 3.58%.

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

Required Supplementary Information
Schedule of OPEB Contributions (Unaudited)
June 30, 2018

	<u>2018</u>
Actuarilly determined contribution	\$ 14,704
Contributions in relation to the actuarilly determined contribution	<u>14,704</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 868,833
Contributions as a percentage of its covered-employee payroll	1.69%

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 actuarial cost method was changed from the Projected Unit Credit Method to the Entry Age Normal Method to comply with the requirements set forth in GASB 74 and 75. Further, the discount rate changed from 2.85% to 3.58%.

CAPE COD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Statement of Costs (Unaudited)
June 30, 2018
Form 1

Schedule 1

	<u>Total Area Service</u>
Operating costs	
RTA administrative costs (excluding depreciation)	\$ 1,240,016
Purchased services	
Fixed route	6,629,137
Demand response	6,234,361
Brokerage services	11,862,741
Rail - Cape Flyer	64,145
Steamship Authority	1,571,420
Debt Service	86,427
Total operating costs	<u>27,688,247</u>
Federal operating assistance	
FTA operating and administrative	7,761,984
Revenues	
Operating	
Farebox revenue	1,423,475
Brokerage service reimbursement	11,862,741
Rail - Cape Flyer	15,427
Other revenues	
Advertising	5,100
Parking	279,459
Interest income	13,192
Miscellaneous	78,981
Total revenues	<u>13,678,375</u>
Net operating deficit	6,247,888
Adjustments	
Extraordinary expenses (not to exceed 2.5% of prior year's local assessment)	56,062
Loss on sale of capital assets	(4,974)
	<u>51,088</u>
Net cost of service	<u>6,298,976</u>
Net cost of service funding	
Local assessments	1,891,339
State contract assistance	4,407,637
Total net cost to be funded	<u>6,298,976</u>

CAPE COD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Statement of Costs-Calculation Worksheet and Supplementary Data (Unaudited)
June 30, 2018
Form 2

Schedule 2

I. Proof calculations and other required information:

A. Prior year operating exp., net of fully funded brokerage serv. costs	\$	14,606,399
Allowable percentage increase:		2.50%
Prior year, net operating expenses times 2.5%		<u>365,160</u>
Current year, allowable net operating expense		<u>14,971,559</u>
Plus adjustments:		
ADA expenses in excess of the 2.5% cap		
Brokerage funded costs		11,862,741
New service		853,947
Current year total operating expense	\$	<u><u>27,688,247</u></u>
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	\$	56,062
Prior year local assessment		<u>1,868,730</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)		<u>3%</u>
C. Aggregate amount of reserve account at June 30.	\$	211,853
Prior year local assessment		<u>1,868,730</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)		<u>11%</u>
D. State the management fee paid to major service providers as a percentage of operating costs incurred.		1%
E. State the percentage of benefits paid by RTA on behalf of RTA employees for:		
1. Group health insurance		75%
F. State the brokerage service contract cost as a percentage of total operating costs.		43%
G. Stabilization Fund:		
1. Current year	\$	-
2. Aggregate balance	\$	<u>-</u>

CAPE COD REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Massachusetts Department of Transportation)
Schedule of Local (Towns) Funding (Unaudited)

Schedule 3

June 30, 2018

<u>Community</u>		<u>Share</u>
Barnstable	\$	593,494
Bourne		95,229
Brewster		52,584
Chatham		17,832
Dennis		105,485
Eastham		52,538
Falmouth		188,059
Harwich		105,353
Mashpee		106,914
Orleans		87,398
Provincetown		105,116
Sandwich		142,345
Truro		52,572
Wellfleet		52,673
Yarmouth		157,856
		<hr/>
	\$	<u>1,915,448</u>