

MERRIMACK VALLEY REGIONAL
TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION, AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2021

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Year Ended June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Merrimack Valley Regional Transit Authority

We have audited the accompanying financial statements of the Merrimack Valley Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net financial position as of and for the year ended June 30, 2021, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Merrimack Valley Regional Transit Authority as of June 30, 2021 and the respective changes in its financial position and its 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 3 through 8, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios and Schedule of Required Contributions on pages 30 and 31 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 32 and 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2021, 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 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.

Roland P. Lambalot, PC

Methuen, Massachusetts
December 1, 2021

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

The following is offered to the readers of the Merrimack Valley Regional Transit Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Merrimack Valley Regional Transit Authority (the Authority) during the fiscal year ended June 30, 2021. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 9.

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Noah S. Berger, Administrator, Merrimack Valley Regional Transit Authority, 85 Railroad Avenue, Haverhill, Massachusetts 01835.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special-purpose government engaged in only business type activities. As such, its financial statements consist of only those financial statements required for proprietary funds and the related notes.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These are followed by the notes to the financial statements. In addition to the financial statements, this report also contains supplemental schedules pertaining to the net cost of service of the Authority.

The statement of net position presents information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the fiscal year with the difference – the increase or decrease in net position – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the previous year's end net position total reconciles to the net position total at the end of this fiscal year.

The statement of cash flows reports cash and investment activities for the fiscal year resulting from operating activities, capital and related activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash and investment balance reconciles to the cash and investment balance of the current fiscal year.

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements and can be found on pages 12 through 29 of the report.

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Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Current assets	\$ 6,426,382	\$ 6,989,474
Restricted and noncurrent assets	6,487,666	4,022,678
Capital assets, net	<u>55,285,287</u>	<u>57,854,000</u>
Total assets	<u>68,199,335</u>	<u>68,866,152</u>
Current liabilities	857,646	706,173
Restricted and noncurrent liabilities	10,494,252	8,857,128
Long term liabilities	<u>1,278,374</u>	<u>1,301,898</u>
Total liabilities	<u>12,630,272</u>	<u>10,865,199</u>
Net position:		
Invested in capital assets, net of related debt	55,285,287	57,854,000
Restricted	-	615,373
Unrestricted	<u>(573,870)</u>	<u>(468,420)</u>
Total net position	<u>\$ 54,711,417</u>	<u>\$ 58,000,953</u>
Operating revenue		
Revenue from transportation	\$ 676,832	\$ 1,262,964
Other	<u>1,073,470</u>	<u>1,370,154</u>
Total operating revenues	<u>1,750,302</u>	<u>2,633,118</u>
Operating expenses:		
Transportation services	15,602,998	15,615,289
Other operating expenses	<u>2,252,580</u>	<u>2,184,212</u>
Total operating expenses, excluding depreciation	17,855,578	17,799,501
Depreciation and amortization	<u>4,185,745</u>	<u>4,083,484</u>
Total operating expenses, including depreciation	<u>22,041,323</u>	<u>21,882,985</u>
Operating loss	<u>(20,291,021)</u>	<u>(19,249,867)</u>
Net nonoperating revenue	<u>15,999,826</u>	<u>16,158,938</u>
Loss before capital grants	(4,291,195)	(3,090,929)
Capital grants and contributions	<u>1,617,032</u>	<u>2,061,418</u>
Change in net position	<u>(2,674,163)</u>	<u>(1,029,511)</u>
Net position:		
Beginning of year	58,000,953	59,030,464
Prior period adjustment	<u>(615,373)</u>	<u>-</u>
End of year net position	<u>\$ 54,711,417</u>	<u>\$ 58,000,953</u>

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Management's Discussion and Analysis - Unaudited

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$54,711,417. The Authority's total net position decreased by \$3,289,536 mainly due to the depreciation of capital grant assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

The Authority's net position consists of its investment in capital assets (e.g., land, buildings, vehicles, and other equipment). The Authority uses these capital assets to provide fixed route and paratransit services to individuals within its service area; consequently, these net assets are not available for future spending. Although the Authority's investment in capital assets is reported as net of related debt, it should be noted that the resources needed to repay any related debt outstanding must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Key factors in the changes in revenues and expenses are as follows:

- Passenger fares decreased \$586,132, or 46.41%, due to the decision to stop collecting fares during the first quarter of the fiscal year and a significant drop in ridership.
- Total operating expenses, excluding depreciation, decreased by \$56,007, or 0.31%, due to the cessation of the commuter bus service.
- Revenues from assessments from member municipalities increased by 2.5% as allowed by law plus the cost of new services, if any.
- Federal operating assistance decreased while state contract assistance increased. Federal capital assistance increased; state capital assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2021 amounted to \$55,285,287 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions and adjustments during the fiscal include the following:

Transit equipment	\$ 1,093,424
Buildings and improvements	465,258
Service equipment	44,666
Furniture & fixtures	13,684
	<u>\$ 1,617,032</u>

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

At year-end, the Authority had \$8,400,000 of revenue anticipation notes outstanding, the same level as the prior year.

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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Economic Factors and Next Year's Budgets

Funding the Authority's net cost of service consists of non-capital expenses less all non-capital revenues, except member municipality assessments and operating assistance from the Commonwealth of Massachusetts. The net cost of service is funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. The State provides State Operating Assistance currently as opposed to reimbursing.

During the Fiscal Year, the Authority completed these capital projects:

1. *Purchase of New Transit Buses through FTA Grant MA-2021-006 and FY 2022 RTACAP*
A purchase order was issued to The Gillig Corp. on January 5th for nine (9) new transit buses to replace nine (9) model year 2009 buses. This purchase involves the use of "Flex" Target Road Funds, through the MVMPO, Federal Transit Section 5307 Funds and FY 2022 State RTACAP Funds. Delivery is expected by June 2022.
2. *Two Projects through FTA Grant MA-2021-002 and Fiscal Year 2021 RTACAP*
 - a. Purchase of 16 new Type E-2 Vehicles to replace 16 model year 2015 Type E-2 Vehicles. Purchase order issued to Shepard Bros. on 12/1/2020, vehicles delivered June 2021.
 - b. Replace existing Security Surveillance System at the McGovern Transportation Center in Lawrence with new. Contract awarded to Galaxy Integrated Technologies on February 26, 2021. Installation completed.
3. *Project through FTA Grant MA-2020-026 and Transportation Development Credits*
Purchase and installation of Automated Passenger Counters (APC) using Statewide 5339 Federal Transit Funds transferred to MVRTA through MassDOT. APC will be installed in all MVRTA transit buses and commuter coaches. A contract awarded to GMV Syncromatics Corporation in Los Angeles, California. Installation complete.
4. *Award of Community Transit Grant*
The MVRTA was awarded the Grant through MassDOT in January 2021 for the purchase of 4 new Type E-2 Vehicles. These 4 vehicles delivered June 30, 2021.
5. *Projects using Statewide FTA 5339 Funds and Toll Credits through MassDOT*
 - a. Replace one (1) model year 2016 Supervisory Vehicle with new. Award was made to Colonial Municipal Group for one (1) Chevrolet Tahoe Special Service Vehicle (SSV). Vehicle delivered, accepted and in service.
 - b. Replace piping to underground gasoline storage tank. Project completed.
 - c. Bulk purchase of both bus and van tires. Project completed.
 - d. Purchase of Maintenance Software: Project completed
 - e. Replace HVAC in Money Counting Room: Project completed.

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6. *Awarded April 16, 2021 FTA 5339 Funds (MA-1374-2021-00) with Fiscal Year 2021 RTACAP*
 - a. Replace 2 servers and related switches/relays located and in use at the MVRTA Headquarters. Completed.
 - b. Replace security video surveillance system at the Gateway Surface Parking facility in Lawrence. Completed.
 - c. Replace the security surveillance system at the MVRTA-owned Haverhill Intermodal Parking Facility. Completed.
 - d. Purchase for the expanded OSS vehicle fleet, MDT units, security camera units and communication equipment. Completed.
 - e. Replace Front Gate Security Entrance Control Pad with new. Completed.
 - f. Install Data Storage Cloud-Based System. Completed.
 - g. Replace External Video Surveillance Cameras on Bus and Van Fleets. Completed.

In addition to the above FTA grants, the following projects were implemented using Fiscal Year 2021 RTACAP funds:

1. Replace five (5) garage doors;
2. Replace waste oil heater in Service Building;
3. Sealcoat driveway MVRTA Headquarters;
4. Repair roof on Maintenance Building;
5. Replace exterior lights on Bus Garage Building;
6. Move rear gate at MVRTA Headquarters for additional employee parking;
7. Purchase and install bollards to protect electric vehicle charging stations at Haverhill and McGovern parking facilities;
8. Purchase pallet racks for tire storage;
9. Purchase oil transfer pump for Maintenance Truck;
10. Purchase new battery tester;
11. Purchase office air purifiers;
12. Upgrade mobile video software;
13. Purchase laptop for Maintenance Department;
14. Purchase monitor for Training Room.

During the Fiscal Year, the Authority implemented a new Route 57 Newburyport intra community shuttle which started September 8, 2020.

During the Fiscal Year, the Authority maintained its emergency response capability in a state of readiness. The Authority's Mass Casualty/Evacuation assets consist of one Ambubus, one Evacuation bus, and two Evacuation vans.

In May 2021, the Advisory Board adopted the FY 2022 Budget to take effect on July 1, 2021. The FY 2020 Annual Audit was accepted by the Advisory Board and posted to the Authority's website. The Five-Year 2022-2026 Capital Plan was adopted by the Advisory Board. The annual Revenue Anticipation Note (RAN) borrowing for Fiscal Year 2022 was completed in June 2021.

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In Fiscal Year 2022, the Authority will undertake these Capital Projects:

1. Replace one (1) Model Year 2016 Supervisory Vehicle;
2. MVRTA Headquarters facility repairs;
3. Complete Riverbank Stabilization Project;
4. Replace eight (8) Model Year 2011 Transit Buses (6 Clean Diesel, 2 Diesel/Electric Hybrid);
5. Replace engines/after treatment on five (5) Model Year 2015 and five (5) Model Year 2016 Transit Buses;
6. Upgrade Automated Stop and Automated Vehicle Location software/hardware on all buses/vans/commuter coaches.

Fixed Route ridership was 1,954,667 in FY 2013, increased to 2,024,281 in FY 2014, increased to 2,175,917 in FY 2015, increased to 2,285,958 in FY 2016, decreased to 2,157,133 in FY 2017, decreased to 2,046,556 in FY 2018, decreased to 1,952,604 in FY 2019, and decreased to 1,500,617 in FY 2020 due to the pandemic event; ridership in FY 2021 was 994,964, or a +66% post-pandemic recovery rate.

Ridership on the Boston Commuter Bus was 63,470 in FY 2013, decreased to 63,207 in FY 2014, decreased to 62,634 in FY 2015, increased to 65,627 in FY 2016, decreased to 63,104 in FY 2017, decreased to 60,763 in FY 2018, increased to 60,822 in FY 2019, and decreased to 39,049 in FY 2020 due to the pandemic event. For both Route 99 Methuen/Lawrence/Andover and Route 98 North Andover, there was zero ridership for the period 3/2020 through 6/2021 as these two routes did not operate. Service for Route 99 resumed on a limited schedule on July 6, 2021.

Ridership for Special Services Transportation was 66,245 in FY 2013, increased to 66,271 in FY 2014, decreased to 62,142 in FY 2015, increased to 68,002 in FY 2016, increased to 70,534 in FY 2017, increased to 77,962 in FY 2018, increased to 83,514 in FY 2019 and decreased to 66,734 in FY 2020 due to the pandemic event; ridership in FY 2021 was 43,861, or a +66% post-pandemic recovery rate.

COVID-19 Event - continued

In Fiscal Year 2021 nightly sanitizing of all buses/vans continued; per the security directive issued by the Transportation Security Administration (TSA) all bus/van operators and passengers continued to wear face coverings; purchase of PPE material (masks, hand sanitizer, disinfectant spray) continued; postings for face covering requirements per the TSA directive continued in all buses and vans and at all transit stations; fare collection resumed September 2020; service revenue for all services for the period FY 2021 7/1/2020 – 6/30/2021 was \$563,882 and for the period FY 2020 7/1/2019 – 6/30/2020 was \$912,126 or a post-pandemic recovery rate of +62%.

Looking forward to FY 2022 the availability of CARES Act funds, CRRSAA funds and American Rescue Plan funds will continue to stabilize Authority finances. The return of bus/van ridership to FY 2020 levels and potentially to FY 2019 levels will be closely monitored during FY 2022.

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Statement of Net Position

June 30, 2021

Assets and Deferred Outflow of Resources

Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,764,158
Receivables (Note 4)	4,518,460
Prepaid expenses	<u>143,764</u>
Total current assets	<u>6,426,382</u>
Restricted and noncurrent assets:	
Cash and cash equivalents (Note 3)	1,074,559
Capital assistance receivables (Note 4)	<u>1,941,470</u>
Total restricted assets	3,016,029
Receivables (Note 4)	2,767,133
Noncurrent costs	305,390
Capital assets, net (Note 5)	<u>55,285,287</u>
Total restricted and noncurrent assets	<u>61,373,839</u>
Total Assets	<u>67,800,221</u>
Deferred outflow of resources related to pension plans	<u>399,114</u>
Total assets and deferred outflows of resources	<u><u>\$ 68,199,335</u></u>

Liabilities

Current liabilities:	
Accounts payable and accrued expenses	\$ 458,936
Accrued interest payable	59,508
Bank credit line (Note 8)	200,000
Revenue bond - current portion	<u>139,202</u>
Total current liabilities	<u>857,646</u>
Restricted and noncurrent liabilities:	
Accounts payable	2,226,741
Compensated absences	109,784
Unearned revenue	<u>615,373</u>
Total liabilities payable from restricted assets	2,951,898
Revenue anticipation notes (Note 7)	8,400,000
Revenue bond (Note 10)	305,390
Net pension liability	<u>972,984</u>
Total restricted and noncurrent liabilities	<u>12,630,272</u>
Total Liabilities	<u><u>\$ 13,487,918</u></u>

Net Position

Invested in capital assets, net of related debt	\$ 55,285,287
Restricted	-
Unrestricted (Note 20)	<u>(573,870)</u>
Total net position	<u><u>\$ 54,711,417</u></u>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2021

Operating Revenues:	
Passenger fares	\$ 676,832
Terminal revenues	957,818
Other Income	<u>115,652</u>
Total operating revenues	<u>1,750,302</u>
Operating Expenses:	
Transit service	12,935,829
Maintenance	2,667,619
Terminal expenses	1,238,726
General Administration	907,954
GASB 68 Pension expense	<u>105,450</u>
	17,855,578
Depreciation	<u>4,185,745</u>
Total operating expenses	<u>22,041,323</u>
Operating loss	<u>(20,291,021)</u>
Nonoperating revenues (expense)	
Operating assistance grants	
Federal	4,450,095
Commonwealth of Massachusetts	7,509,613
Local Assessments	4,144,672
Interest income	2,047
Interest expense	<u>(106,601)</u>
Total non-operating revenues	<u>15,999,826</u>
Loss before capital grants	<u>(4,291,195)</u>
Capital Grants and Contributions	<u>1,617,032</u>
Change in net position	(2,674,163)
Net position	
Beginning of year, as reported	58,000,953
Prior period adjustment (Note 21)	<u>(615,373)</u>
Beginning of year, as restated	<u>57,385,580</u>
Net position, end of year	<u>\$ 54,711,417</u>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Passenger fares	\$ 676,832
Terminal revenues	957,818
Other cash receipts	194,389
Payments to operators	(16,361,743)
Payments to other vendors	(1,856,713)
Payments to employees for services	(394,001)
Net cash used in operating activities	<u>(16,783,418)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	8,400,000
Principal paid on revenue anticipation notes	(8,400,000)
Principal paid on revenue bond	(134,625)
Interest paid on debt	(103,322)
Operating and contract assistance	15,681,342
Net cash provided by non-capital financing activities	<u>15,443,395</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,617,032)
Capital contributions	
United States Department of Transportation	1,580,502
Commonwealth of Massachusetts	440,161
Net cash used by capital and related financing activities	<u>403,631</u>
Cash flows from investing activities:	
Transfer to temporary investments	(615,373)
Interest income	2,047
Net cash provided by investing activities	<u>(613,326)</u>
Change in cash and cash equivalents	(1,549,718)
Cash and cash equivalents, beginning of year	<u>3,313,876</u>
Cash and cash equivalents, end of year	<u>\$ 1,764,158</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (20,291,021)
Adjustments:	
Depreciation	4,185,745
Pension expense	105,450
Changes in assets and liabilities	
Receivables, net	(423,038)
Other assets	(241,158)
Accounts payable and accrued expenses	(119,396)
Net cash used in operating activities	<u>\$ (16,783,418)</u>

See accompanying notes to the financial statements

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements

June 30, 2021

Note 1. The Reporting Entity

The Authority, a political subdivision of the Commonwealth of Massachusetts (the Commonwealth), was established in accordance with Chapter 161B of the Massachusetts General Laws to provide a public transit system for the territory comprised of the cities of Lawrence, Haverhill, Methuen, Newburyport and Amesbury, and the towns of Andover, Rowley, Boxford, Merrimac, North Andover, Groveland, Newbury, West Newbury, Georgetown, Salisbury and North Reading. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criteria, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Massachusetts Department of Transportation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Authority are included in the Statements of Net Position. The principal revenues of the Authority are fare box revenues received from patrons and terminal revenues from parking facilities. The Authority also recognizes as operating revenue the rental fees received from vendors from operating leases of Authority property. Operating expenses for the Authority include the costs of operating mass transit and demand responsive services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Budget

The Authority must establish an operating budget each year so that the amount will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, less (b) the aggregate of all revenue and transfers projected to be received by the Authority, including available surplus funds. The budget for all operations of the Authority is prepared by the Administrator and is acted upon by the Advisory Board. The budget is prepared on the accrual basis. Depreciation is not recognized as an expense, but capital outlays are recognized as expenses for budgetary control purposes. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

C. Cash and Cash Equivalents

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized or covered by federal deposit insurance except as stated in Note 2. The carrying amount of the cash equivalents is fair value. For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Notes to Financial Statements

June 30, 2021

D. Compensated Absences

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies. The amount of the vested accrual at June 30, 2021 was \$109,784.

E. Capital Assets

Capital assets are stated at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in condition for use. Capital assets are defined as assets with initial, individual costs exceeding \$5,000.

F. Depreciation

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

Buildings	20-40 years
Vehicles	5-12 years
Passenger Shelters	5 years
Furniture, fixtures and equipment	5-7 years

G. Estimates

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

H. Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of investments, cash equivalents and grants receivable. The Authority's cash equivalents were with various credit-worthy financial institutions; investments consisted of a collateralized repurchase agreement and grants receivable were due from Federal, State and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

I. Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

J. Unearned Revenue

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

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K. Reimbursed Cost of Service

The legislative act under which the Authority was established provides, among other things, that the Commonwealth reimburse the Authority for the “net cost of service”, as defined. A portion of the amount not reimbursed is then assessed to the city and towns constituting the Authority. The “net cost of service”, as defined, does not include a charge for depreciation. It does, however, include debt service payments made in connection with long-term indebtedness. For financial reporting purposes, the Authority follows the generally accepted accounting method of depreciating the cost of property over its economic useful life.

L. Statement of Net Position

The statement of net position presents all of the Authority’s assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed of the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

M. Restricted Assets and Restricted Liabilities

Restricted assets are restricted for the acquisition of capital assets and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

N. Implementation of GASB Pronouncements

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

During fiscal 2021, the following GASB Pronouncements were adopted and implemented, when necessary, by the Authority. The adoption of these statements did not have a material impact on the Authority’s financial statements.

- No. 84 – *Fiduciary Activity*
- No. 90 – *Major Equity Interests*

The GASB has issued the following statements which require adoption subsequent to June 30, 2021 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the Authority’s fiscal practices and financial reports are being evaluated.

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Statement No.	Adoption Required in Fiscal Year
87 <i>Leases</i>	2022
89 <i>Accounting for Interest Cost Incurred before the End of Construction Period</i>	2022
91 <i>Conduit Debt Obligations</i>	2023
92 <i>Omnibus 2020</i>	2022
93 <i>Replacement of Interbank Offered Rates</i>	2022
94 <i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96 <i>Subscription-Based Information Technology Arrangements</i>	2023
97 <i>Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and 84, and a suppression of GASB No. 32</i>	2022

O. Pension Plans

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which changed the way in which the Authority reports its participation in its defined benefit pension plan. Among the changes, GASB Statement No. 68 requires the Authority to record a liability on the statement of net position for its unfunded pension plans' obligation. For purposes of measuring the Authority's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Lawrence Retirement System (LRS) and additions to/deductions from the LRS's fiduciary position have been determined on the same basis as they are reported by LRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Deferred Outflows/Inflows of Resources

The Authority accounts for certain transactions that result in 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 2021, the Authority has reported deferred outflows that are related to its pension plan.

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Note 3. Cash and Cash Equivalents

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust (“MMDT”). Certain cash and investments are segregated from operating cash due to certain internal or external restrictions. These funds consist of those required by bond reserve requirements and state allowed reserves.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority’s deposits may not be recovered. The Authority does not have a deposit policy for custodial risk. As of June 30, 2021 \$370,041 of the government’s bank balance of \$2,219,193 was exposed to custodial credit risk as uninsured and uncollateralized. This amount was collateralized, in part, by \$1,599,152 in letters of credit provided by the bank and FDIC insurance.

Note 4. Receivables

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

United states Department of Transportation	
Direct federal grants	
CARES Act grant	\$ 10,947
Commonwealth of Massachusetts	
Operating grants	
Local operating assistance billed by the State to the communities constituting the Authority and paid by the State to the Authority	6,703,317
Due from service providers	300,317
Other	271,012
	7,285,593
Total Receivables	7,285,593
Less noncurrent receivables	2,767,133
	\$ 4,518,460
Capital assistance	
Federal grants	931,935
Commonwealth of Massachusetts	1,009,535
	\$ 1,941,470
Total Capital Grant Receivables	\$ 1,941,470

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Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2021:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 4,198,534	-	-	4,198,534
Construction in progress	222,857	11,994	-	234,851
Total capital assets not being depreciated	<u>4,421,391</u>	<u>11,994</u>	<u>-</u>	<u>4,433,385</u>
Other capital assets:				
Buildings and improvements	62,265,020	453,264	-	62,718,284
Buses - revenue vehicles	30,563,356	1,093,424	1,044,610	30,612,170
Service equipment	2,461,189	44,666	-	2,505,855
Electronic equipment	2,987,801	-	-	2,987,801
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	387,812	13,684	-	401,496
Total other capital assets at historical cost	<u>98,712,978</u>	<u>1,605,038</u>	<u>1,044,610</u>	<u>99,273,406</u>
Less accumulated depreciation for:				
Buildings and improvements	23,078,358	1,631,246	-	24,709,604
Buses - revenue vehicles	17,320,892	2,287,866	1,044,610	18,564,148
Service equipment	1,649,103	184,393	-	1,833,496
Electronic equipment	2,967,202	12,193	-	2,979,395
Passenger shelters	47,800	-	-	47,800
Furniture & fixtures	217,014	70,047	-	287,061
Total accumulated depreciation	<u>45,280,369</u>	<u>4,185,745</u>	<u>1,044,610</u>	<u>48,421,504</u>
Other capital assets, net	<u>53,432,609</u>	<u>(2,580,707)</u>	<u>-</u>	<u>50,851,902</u>
Total capital assets, net	<u>\$ 57,854,000</u>	<u>(2,568,713)</u>	<u>-</u>	<u>55,285,287</u>

Note 6. Grants

Under various sections of the Fixing America's Surface Transportation (Pub. L1 114-94; 12/4/2015 FAST Act) Act, the United States Department of Transportation approves capital grants to fund up to 80% of the Authority's capital improvement projects. The remaining portion of approximately 20% will be financed through the Massachusetts Department of Transportation. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition, the Federal government may fund up to 80% of the Authority's preventative maintenance and complementary ADA services costs, as defined.

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The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2021 was \$7,509,613.

Note 7. Revenue Anticipation Notes

At June 30, 2021, the Authority had \$8,400,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 0.3183% and are due June 24, 2022.

	Outstanding at June 30 2020	Issued	Retired	Outstanding at June 30 2021
	<u>2020</u>	<u>Issued</u>	<u>Retired</u>	<u>2021</u>
0.9394% revenue anticipation note	\$ 8,400,000	-	8,400,000	-
0.3183% revenue anticipation note	<u>-</u>	<u>8,400,000</u>	<u>-</u>	<u>8,400,000</u>
 Total	 <u>\$ 8,400,000</u>	 <u>8,400,000</u>	 <u>8,400,000</u>	 <u>8,400,000</u>

The Authority uses the proceeds of these notes to fund its mass transit operations. The RAN is considered short term debt that is expected to be refinanced and is included in the accompanying Statement of Net Position as a noncurrent liability. All required payments with respect to these obligations are guaranteed by the Commonwealth of Massachusetts for the entire duration of the notes.

Note 8. Bank Credit Line

The Authority has a revolving line of credit with TD Bank in the maximum amount of \$2,500,000 that is due on demand. The note contains a variable interest rate. The line also has a fee charge of 1/8% of the unused line. The loan is secured by the parity pledge of the Authority's revenues. The Authority owed \$200,000 at June 30, 2021.

Note 9. Unearned Revenue: Extraordinary Reserve and Stabilization Fund

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses that are both unusual in nature and infrequent in occurrence. The total reserve amount may not exceed 20% of the prior year's local assessment and the annual funding cannot exceed 3% of the current year's local assessment. The accumulated aggregate reserve of \$229,307 (which represents approximately 5.53% of the applicable local assessment of \$4,144,672) is included in unearned revenue in the accompanying statement of net position.

Chapter 161B of the General Laws of the Commonwealth has been amended to allow the Authority to establish a stabilization fund, which can be accessed for capital improvements or to offset an unforeseen and dramatic loss of revenue within a fiscal year. The Authority maintains a stabilization fund in the amount of \$386,066 which is included in unearned revenue in the accompanying statement of net position.

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Note 10. Revenue Bond

Financing of \$2,000,000 for the McGovern Transportation Center was obtained through the Massachusetts Development and Finance Agency. This funding is in the form of a revenue bond that was effective July 1, 2004 and was interest only at a rate of 4.99% through September 1, 2005. The bond converted to an amortization schedule with the first monthly payment of \$13,667 due on October 1, 2005. The initial interest rate was subject to change on July 1, 2009. The new rate is 3.341% with a monthly payment of \$12,661. The bond is secured by all net revenues generated by the parking garage. The bond also contains a debt service reserve fund requirement of \$150,000.

The principal and interest maturities of the bonds as of June 30, 2021 are as follows:

Fiscal Year(s):	<u>Principal</u>	<u>Interest</u>
2022	\$ 139,202	12,734
2023	143,924	8,012
2024	148,807	3,129
2025	12,659	11

Note 11. Retirement Plans

General Information about the Pension Plan

Plan Description

The Lawrence Retirement System (LRS) is multiple- employer, cost sharing, contributory defined benefit pension plan covering all employees of the government member units deemed eligible by the Lawrence Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory upon the commencement of employment for all permanent employees working a minimum of 20 hours per week. Participating member units include the City of Lawrence, the City of Lawrence School Department (Non Teachers), the Lawrence Housing Authority, and the Merrimack Valley Regional Transit Authority.

The System is governed by a five-member Board who establish the policies under which the System operates. Board members also approve all of the System's financial transactions, including the approval of retirement benefits to members. The day-to-day operations of the System are managed by the Executive Director.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

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Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The Plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired 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.

There are three classes of membership in the retirement system: group 1, group 2, and group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, group 4 consists of police officers, firefighters, and other hazardous positions.

Any individual in Group 1 or Group 2 whose membership began before January 1, 1978, and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or later, regardless of how many years of credible service he or she has completed.

There are no minimum vesting requirements for individuals in Group 4.

Members in Groups 1 and 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon the completion of 10 years of service and upon reaching the age of 55.

Members in Groups 1 and 2, hired on or after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching the age of 60 (Group 1) or age 55 (Group 2).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5% and 9% of their gross compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000. Deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the PERAC actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

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The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. Chapter 32 of the MGL requires Massachusetts retirement systems to adopt funding schedules designed to reduce the unfunded actuarial liability of the system to zero no later than June 30, 2040. The System adopted Section 22d of Chapter 32 in April of 1989. The System's current funding schedule is designed to reduce the unfunded actuarial liability to zero by 2036.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status and group classification.

Employees who resign from service are entitled to request a refund of their accumulated total deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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

The Authority is required to pay into the Retirement System its share of the system-wide actuarially determined contribution, which is apportioned among the employers, based on active covered payroll. The Authority's contribution to the Retirement System for the year ended June 30, 2021 was \$107,259, which approximated its required contribution for the year.

At June 30, 2021, the Authority reported a liability of \$972,984 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. 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, 2020, the Authority's proportion of net pension liability was 0.490 percent.

Since LRS performs an actuarial valuation bi-annually, there are no reported amounts for changes in benefit terms differences between expected and actual experience and changes in assumptions as of December 31, 2020.

In the LRS financial statements for the year ended December 31, 2020, in addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of fiduciary net position that applies to a future period (s) and so will not be recognized as an outflow of resources (deduction) until then.

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In addition to liabilities, the statement of fiduciary net position will sometimes report a separate section for deferred inflow of resources. This separate financial element, *deferred inflow of resources*, represents an acquisition of net position that applies to future period (s) and so will not be recognized as an inflow of resources (addition) until that time. The LRS did not have any items that qualify for reporting in this category.

For the year ended June 30, 2021, the Authority recognized pension expense of \$212,709. At June 30, 2021 the Authority reported deferred out flows related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual earnings on pension plan investments	\$ 399,114

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

Year ended June 30:	2022	\$ 148,753
	2023	155,991
	2024	27,111
	2025	33,912
	2026	33,347

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A. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement that was rolled forward to December 31, 2020.

Actuarial cost method	Individual entry age normal cost method
Amortization method	Payments increase at 3.67 percent
Asset valuation method	Market value of assets as of the valuation date
Remaining amortization period	16 years for the fresh start base
Inflation	2.3 percent
Projected salary increases	7.75% - 3.75% based on service
Investment rate of return	7.25 percent per year of net investment expenses
Cost of living adjustments	3 percent on the first \$12,000 of a members retirement allowance
Mortality rates	RP-2014 adjusted to 2006 and projected generationally using MP-2019. For members retired under and Accidental Disability (job-related), 50% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2014 adjusted to 2006 and projected generationally using MP-2019, ages set forward two years.

The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an actuarial experience study for the period of January 1, 2018 to January 1, 2020.

B. Investment Policy

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

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The long term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.0%. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target allocation as of January 1, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equities	23.10%	6.40%
International Equities	14.40%	6.60%
Emerging Markets Equities	5.80%	8.40%
Core Fixed Income	15.80%	2.70%
Value-Added Fixed Income	7.40%	6.20%
Private equity	12.60%	10.20%
Real Estate	8.30%	6.00%
Timberland	3.30%	6.60%
Portfolio Completion	8.80%	5.20%
Liquidating Portfolios	0.10%	0.00%
Overlay	0.40%	0.00%
Total	100.00%	

C. Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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D. Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	6.25%	7.25%	8.25%
Authority's proportionate share of the net pension liability	\$ 1,240,971	\$ 972,984	\$ 761,842

E. Changes in Assumptions and Plan Provisions

Changes in Assumptions

None.

Changes in Plan Provisions

None.

F. Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LRS financial report. Requests for copies of the report should be addressed to the System’s Board at 350 Merrimack Street, Suite 302, Lawrence, MA 01843.

Other Pension Plans

The Authority also administers a deferred compensation plan through which employees can participate in a voluntary, payroll-deducted retirement program created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death approved or unforeseeable emergency. All amounts of compensation deferred, property purchased with those amounts, and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries.

Note 12. Post-retirement health benefits

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

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Note 13. Risk Management

In conjunction with its normal operations, the Authority is exposed to various risks related to the damage or destruction of its assets from both natural and man-made occurrences, tort/liability claims, errors and omissions claims and professional liability claims. As a result of these exposures, the Authority has developed a comprehensive risk management program. There have been no significant reductions in coverage from the prior year and settlements have not exceeded insurance coverage for the current year or in any other year.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2021.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2021, expenditures for the Authority's share of health insurance contributions were \$52,228. The Authority purchases insurance for worker's compensation for its employees.

Note 14. Commitments and Contingent Liabilities

A. Capital Investment Program

The Authority's capital investment continuing program for mass transportation development has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2021, capital projects costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources.

<u>Funding Source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 2021</u>	<u>Unexpended costs</u>
Federal grants	\$ 6,954,887	3,333,162	3,621,725
State and local sources	2,460,084	1,182,423	1,277,661
Total	<u>\$ 9,414,971</u>	<u>4,515,585</u>	<u>4,899,386</u>

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Fixing America's Surface Transportation (FAST) Act. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of the grants or require the refund of a significant amount of funds received under these grants.

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B. Legal and Other

The Authority is a defendant in various litigations. Although the outcomes of these matters are not presently determinable, in the opinion of the Authority’s management, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority, except as noted.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority’s management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

The Authority has entered into a five-year agreement for management services effective July 1, 2017. Annual fees start at \$870,616.

The State changed its methodology for reimbursing the Authority for local member community assessments presented in current and past audits. This change affected all Transit Authorities in the Commonwealth with the exception of the MBTA. MVRTA has accumulated \$2,243,045 in shortages going back to fiscal 2008. Discussions have been going on through the Authority’s representative, the Massachusetts Association of Regional Transit Authorities (MARTA). Little progress has been made in resolving this matter. The state changed the format of current reimbursement to two years in arrears.

C. Fuel Contracts

The Authority had the following contracts outstanding during the fiscal year:

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

Note 15. Net Investments in Capital Assets

This balance is represented by the amount invested in capital assets net of related debt. It is comprised of the following:

Cost of Capital Assets Acquired	\$ 103,706,791
Less: Accumulated Depreciation	48,421,504
Less: Outstanding Debt Related to Capital Assets	<u>-</u>
	<u>\$ 55,285,287</u>

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

Notes to Financial Statements

June 30, 2021

Note 16. Transit Service

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property are performed by First Transit under the terms of an agreement whereby First Transit operates mass transit along such routes and according to such a schedule as defined by the Authority. First Transit has two operating subsidiaries, Merrimack Valley Area Transportation Company (MVATC) which operates the fixed route service and Special Transportation Services (STS) which operates the elderly and handicapped services. In return, the Authority agrees to pay First Transit a management fee and to reimburse MVATC and STS for all costs and expenses which are reasonable and necessary for the efficient operation of the services.

Note 17. The Lawrence Gateway Surface Parking Facility

The parking area has been operational since November 2010. The Authority is waiting for Aerojet Rocketdyne, Inc. to complete and receive approval from the US EPA on Aerojet's final plan for long term compliance monitoring. Once this plan is approved the MVRTA and Aerojet will complete the process for the Authority to take title to the parking area land. As of June 30, 2021 there was no set date for EPA approval of Aerojet's compliance plans.

Note 18. Related Party

The Authority is deemed to be a related part of the Commonwealth of Massachusetts and the Massachusetts Department of Transportation due to its status as a component unit. Related party transactions consisted of Operating Assistance of \$7,581,607; State Capital Assistance of \$1,177,706; and Local Assessments of \$4,144,672 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$6,703,317 in operating assistance to be billed to the Communities constituting the Authority; and \$1,009,535 of State Capital Assistance.

Note 19. Executive Compensation

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the "salaries and other compensation of its executive director, officers, board members and other highly compensated employees". Compensation is defined in the regulation, 801 CMR 53.04 (1) to include "base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time". The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$130,543 during the fiscal year. The Administrator receives family health insurance and contributes 25% of the cost of the premium. Advisory board members and officers do not receive compensation.

Note 20. Unrestricted Net Position

The balance in the Unrestricted Net Position on the Statement of Net Position reflects the effect of the presentation of the net pension liability required of (\$573,870) by GASB 68.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements

June 30, 2021

Note 21. Prior Period Adjustment

In prior years the Authority reported the Reserve for Extraordinary Expenses allowed by Section 6 of Chapter 161B as a segregated portion of Net Position. The Commonwealth of Massachusetts requires this type of reserve to be reported as a liability under the account name unearned revenue. This adjustment had no effect on the current year’s financial results.

Note 22. COVID-19

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

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

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

	<u>Grant Amount</u>	<u>Current Expenditures</u>	<u>Prior Expenditures</u>	<u>Remaining Balance</u>
Cares - Boston	\$16,914,813	4,006,362	822,456	12,085,995
CRRSAA	299,747	-	-	299,747
American Rescue Plan	<u>5,825,882</u>	<u>-</u>	<u>-</u>	<u>5,825,882</u>
	<u><u>\$23,040,442</u></u>	<u><u>4,006,362</u></u>	<u><u>822,456</u></u>	<u><u>18,211,624</u></u>

Note 23. Subsequent Events

The Authority has evaluated events subsequent to June 30, 2020 through December 1, 2021, the date on which the financial statements were available for issuance, and determined that there are no material items that would require recognition or disclosure in the Authority’s financial statements.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information (Unaudited)

Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios

Last 10 Fiscal Years

	Authority's proportion of the net pension liability	Authority's proportionate share of the net pension liability	Authority's covered-employee payroll	Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of total pension liability
2021	0.4900%	\$ 972,984	\$ 381,227	255.22%	58.89%
2020	0.3960%	\$ 857,315	\$ 381,227	224.88%	54.14%
2019	0.3680%	\$ 863,513	\$ 283,601	304.48%	48.46%
2018	0.3400%	\$ 722,785	\$ 243,141	297.27%	51.49%
2017	0.3400%	\$ 1,348,379	\$ 234,333	575.41%	46.80%
2016	0.3378%	\$ 783,431	\$ 240,671	325.52%	44.00%
2015	0.3360%	\$ 734,844	\$ 231,972	316.78%	45.22%

Notes to Required Supplementary Information**Measurement Date**

The amounts presented in this schedule were determined as of December 31, 2020.

Schedule Presentation

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

Changes Information

Since the Lawrence Retirement System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2020.

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

Last 10 Fiscal Years

	Actuarially required contribution	Contributions in relation to the actuarially required contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of its covered-employee payroll
2021 \$	107,259	107,259 \$	-	\$ 381,227	28.14%
2020 \$	83,528	83,517 \$	11	\$ 381,227	21.91%
2019 \$	75,178	75,336 \$	(158)	\$ 283,601	26.51%
2018 \$	66,833	66,559 \$	274	\$ 243,141	27.49%
2017 \$	228,498	228,529 \$	(31)	\$ 234,333	97.51%
2016 \$	61,757	61,757 \$	-	\$ 240,671	25.66%
2015 \$	58,440	58,440 \$	-	\$ 231,972	25.19%

Notes to Required Supplementary Information**Schedule Presentation**

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

Contributions

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

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

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Schedule of Net Cost of Service (Unaudited)

Year Ended June 30, 2021

OPERATING COSTS

MVRTA administrative costs	\$ 907,954
Purchased services	
Fixed route	13,711,193
Demand responsive	1,892,255
Terminal expense	1,238,726
Debt service - interest	106,601
Total operating costs	<u>17,856,729</u>

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	4,450,095
Other federal	-
Total federal assistance	<u>4,450,095</u>

REVENUES

Operating	
Farebox revenue	676,832
Other Transit Revenues	71,994
Other Revenue	
Terminal revenues	957,818
Advertising	41,147
Interest income	2,047
Miscellaneous	2,511
Total revenues	<u>1,752,349</u>

NET OPERATING DEFICIT 11,654,285ADJUSTMENTS -NET COST OF SERVICE 11,654,285NET COST OF SERVICE FUNDING

Local assessments	4,144,672
State contract assistance to be funded	7,509,613
Less: state operating assistance received	7,509,613
Balance requested from the State	-

UNREIMBURSED DEFICIT -*See accompanying independent auditors' report*

MERRIMACK VALLEY REGIONAL TRANSIT AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Allocation of Local Assessments (Unaudited)

June 30, 2021

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2020 as well as the audited amount for fiscal 2021.

	Fiscal 2020 Assessment	Fiscal 2021 Audited
Amesbury	\$ 198,119	203,072
Andover	251,322	257,605
Boxford	2,655	2,721
Georgetown	42,880	43,952
Groveland	39,432	40,418
Haverhill	829,355	850,089
Lawrence	1,187,738	1,217,431
Merrimac	72,660	74,477
Methuen	863,595	885,185
Newbury	10,099	10,351
Newburyport	165,344	169,478
North Andover	209,030	214,256
North Reading	93,930	96,278
* Rowley	-	-
Salisbury	74,505	76,368
West Newbury	2,918	2,991
Totals	<u>\$ 4,043,582</u>	<u>4,144,672</u>

* No service was provided in Rowley in fiscal 2020 and fiscal 2021.