

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, 2016

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, 2016

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  
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JUNE 30, 2016

Condensed Financial Information

Statement of Net Position  
(000 omitted)

	2016	2015	2014
Current assets	\$ 7,967	\$ 10,507	\$ 11,765
Capital assets, net	27,701	26,783	27,090
Restricted and noncurrent assets	1,037	1,490	1,187
Total assets	<u>36,705</u>	<u>38,780</u>	<u>40,042</u>
Deferred outflows of resources	146	3	
Total assets and deferred outflows of resources	<u>36,851</u>	<u>38,783</u>	<u>40,042</u>
Restricted and noncurrent liabilities	10,557	12,218	12,422
Current liabilities	2,737	3,273	4,590
Total liabilities	<u>13,294</u>	<u>15,491</u>	<u>17,012</u>
Deferred inflows of resources	179		
Total liabilities and deferred inflows of resources	<u>13,473</u>	<u>15,491</u>	<u>17,012</u>
Net position			
Invested in capital assets	27,701	26,783	27,090
Restricted	489	717	432
Unrestricted	(4,812)	(4,208)	(4,492)
Total net position	<u>\$ 23,378</u>	<u>\$ 23,292</u>	<u>\$ 23,030</u>

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

	2016	2015	2014
Operating revenues			
Transportation services	\$ 12,272	\$ 10,255	\$ 8,973
Operating expenses			
Cost of transportation service, maintenance and administration	23,897	22,776	20,902
Depreciation	3,357	3,285	3,197
	<u>27,254</u>	<u>26,061</u>	<u>24,099</u>
Operating loss	<u>(14,982)</u>	<u>(15,806)</u>	<u>(15,126)</u>
Nonoperating revenues and (expenses)			
Operating assistance	11,125	12,222	11,629
Other	331	345	249
	<u>11,456</u>	<u>12,567</u>	<u>11,878</u>
Loss before capital contribution	<u>(3,526)</u>	<u>(3,239)</u>	<u>(3,248)</u>
Capital contributions	3,612	3,501	2,383
	<u>3,612</u>	<u>3,501</u>	<u>2,383</u>
Change in net position	86	262	(865)
Net position			
Beginning of year			
As previously reported	23,292	23,030	25,723
Cumulative effect - change in accounting principle			(1,828)
As restated	<u>23,292</u>	<u>23,030</u>	<u>23,895</u>
End of year	<u>\$ 23,378</u>	<u>\$ 23,292</u>	<u>\$ 23,030</u>

CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
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FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2016 and 2015

The assets of the Authority exceeded its liabilities at June 30, 2016 by \$23,378,000.

The Authority's net position increased by approximately \$86,000 (.4%) during the current year. This was due primarily to operating revenues of \$12,272,000, nonoperating revenues (primarily grants) of \$11,456,000 and capital contributions of \$3,612,000, less operating expenses of \$27,254,000.

The Authority's total assets decreased in 2016 versus 2015 by \$2,075,000 (5.3%).

Total current assets decreased in 2016 versus 2015 by \$2,540,000 (24.2%). This was caused primarily by a decrease in receivables for operating assistance.

The restricted and noncurrent assets decreased in 2016 versus 2015 by \$453,000 (30.4%). This was caused by an increase in restricted cash and equivalents of \$83,000 less decreases in receivable for capital assistance of \$390,000 and receivable for operating assistance of \$146,000.

Deferred outflows of resources related to pensions increased in 2016 versus 2015 by \$143,000.

Total net capital assets increased in 2016 versus 2015 by \$918,000 (3.4%). This was caused by capital acquisitions of \$4,346,000, less depreciation of \$3,357,000 and removals of \$71,000. These acquisitions were funded by Federal and State capital grants.

Total debt decreased by approximately \$2,197,000 (14.2%). This was caused primarily by a decrease in accounts payable both operating and capital asset related of \$668,000 and a decrease in the revenue anticipation note of \$1,553,000, less other increases.

Deferred inflows of resources related to pensions increased by \$179,000.

CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2016

Revenues

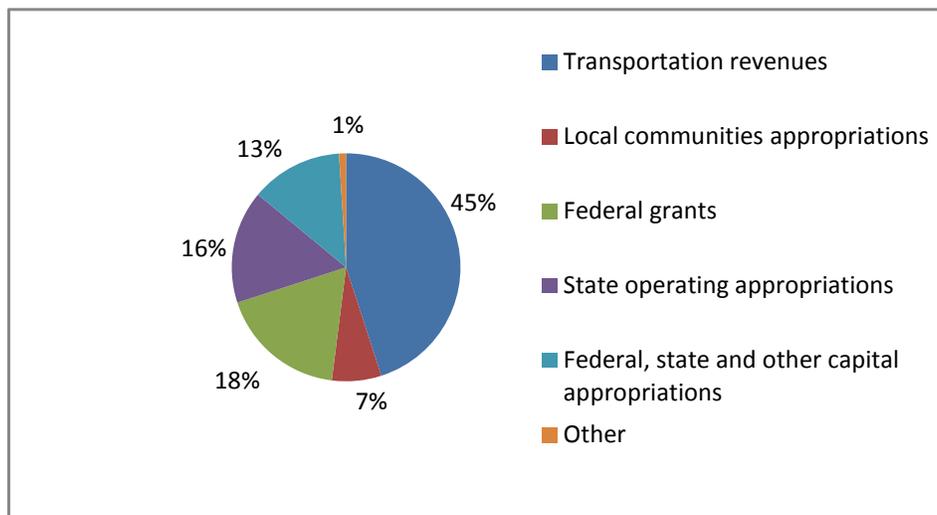
Total operating revenue increased in 2016 versus 2015 by \$2,017,000 (19.7%). This was caused primarily by increases in human service transportation revenue.

Nonoperating revenue decreased in 2016 versus 2015 by \$1,111,000 (8.8%). This decrease was the result of a series of Authority revenue enhancement and cost reduction initiatives. These policies were implemented to eliminate the Authority's over reliance on federal operating grants to fund its operations. As a result of these initiatives, the federal share of revenues supporting the Authority was reduced from 23% in fiscal year 2015 to 18% in fiscal year 2016. Actual federal operating revenues were reduced from \$6,058,000 in fiscal year 2015 to \$4,908,000 in fiscal year 2016, which represents a \$1,150,000 (19%) reduction.

Total capital contributions increased in 2016 versus 2015 by \$111,000 (3.2%).

The change in net position decreased in 2016 versus 2015 by \$176,000 (67.2%).

**Revenues by source:**



CAPE COD REGIONAL TRANSIT AUTHORITY  
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Operating Expenses

Total operating expenses increased in 2016 versus 2015 by \$1,193,000 (4.6%). This was caused primarily by an increase in the cost of transportation services related to human service transportation expenses.

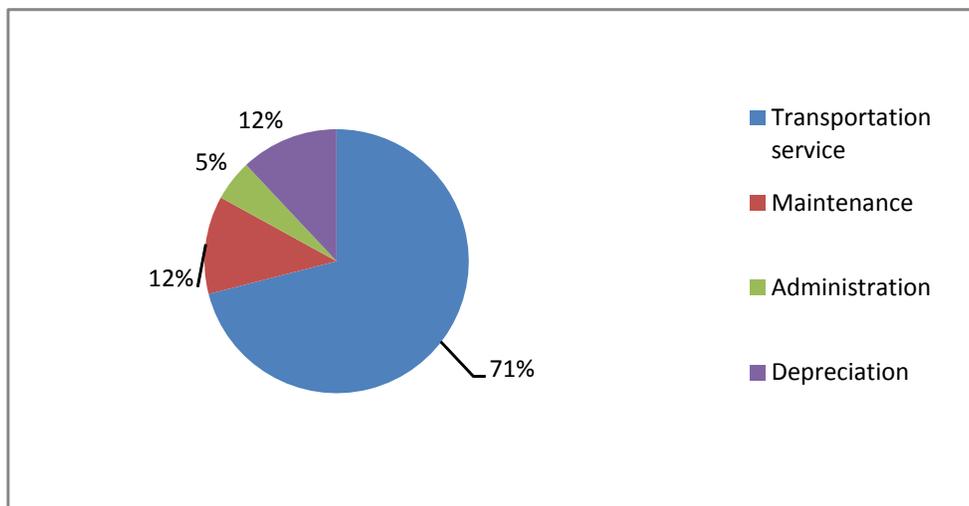
The cost of transportation services increased in 2016 versus 2015 by \$1,323,000 (7.4%). The increase is attributed entirely to human service transportation expenses which, for the most part, are fully reimbursed by the Commonwealth's Human Service Transportation Department. After excluding the human service transportation expense, the Authority's operating expense was decreased in fiscal year 2016 versus 2015 by \$512,000 (6%). This decrease in transportation expense was the result of a series of planned cost reduction initiatives that included: lowered fuel cost through an indexed price fuel contract, revisions to the demand response scheduling model, close management of operator payroll overtime and rebid contracts at a lowered cost.

Maintenance expense and administrative expense decreased in 2016 versus 2015 by \$201,000 (4.1%).

Depreciation expense increased in 2016 versus 2015 by \$72,000 (2.2%). This was primarily attributable to the addition of a full years' depreciation on 2014 acquisitions and half years' depreciation on 2016 acquisitions.

The Authority's operating loss decreased in 2016 versus 2015 by \$824,000 (5.2%).

Expenses by source:



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FINANCIAL ANALYSIS

Comparison of Financial Condition at June 30, 2015 and 2014

The assets of the Authority exceeded its liabilities at June 30, 2015 by \$23,292,000.

The Authority's net position increased by \$262,000 (1.1%) during the current year. This was due primarily to operating revenues of \$10,255,000, nonoperating revenues (primarily grants) of \$12,567,000 and capital contributions of \$3,501,000, less operating expenses of \$26,061,000.

The Authority's total assets decreased in 2015 versus 2014 by \$1,259,000 (3.1%).

Total current assets decreased in 2015 versus 2014 by \$1,258,000 (10.7%). This was caused primarily by a decrease in receivables for operating assistance.

The restricted and noncurrent assets increased in 2015 versus 2014 by \$306,000 (25.8%). This was caused by increases in restricted cash and equivalents of \$48,000 and deferred outflows of resources of \$3,000, receivable for capital assistance of \$28,000 and receivable for operating assistance of \$227,000.

Total net capital assets decreased in 2015 versus 2014 by \$307,000 (1.1%). This was caused by capital acquisitions of \$2,978,000 net of depreciation of \$3,285,000. These acquisitions were funded by Federal and State capital grants.

Total debt decreased by \$1,521,000 (8.9%). This was caused by an increase in accounts payable both operating and capital asset related of \$781,000 and unearned revenue of \$48,000, less a decrease in the revenue anticipation note of \$2,350,000.

The cumulative effect of a change in accounting principle of \$1,828,000 was recorded in 2014. This was done to implement GASB No. 68. It was related to recording the net pension liability.

CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2016

Revenues

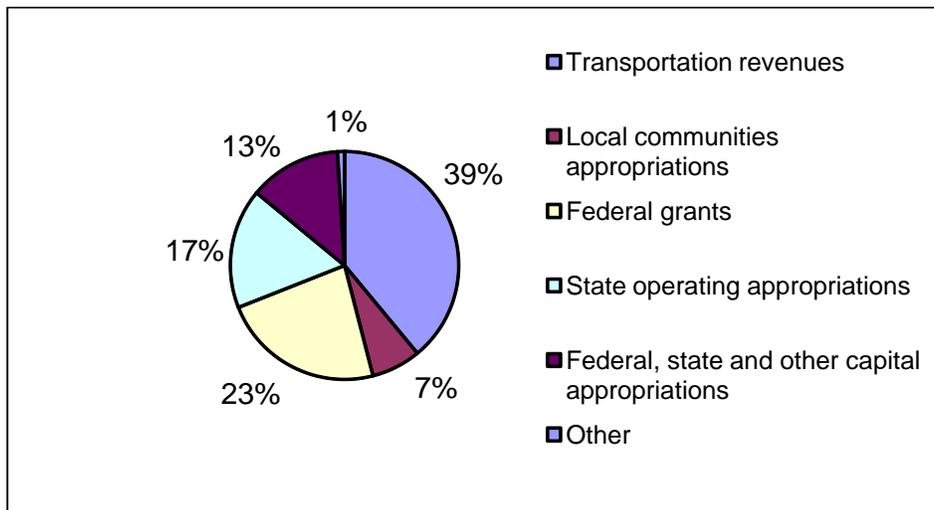
Total operating revenue increased in 2015 versus 2014 by \$1,282,000 (14.3%). This was caused primarily by increases in ridership.

Nonoperating revenue increased in 2015 versus 2014 by \$689,000 (5.8%). This was caused primarily by increases in state contract assistance.

Total capital contributions increased in 2015 versus 2014 by \$1,118,000 (46.9%). This was caused primarily by increases in Federal capital grant funding of \$1,151,000 less decreases in State and other funding.

The change in net position increased in 2015 versus 2014 by \$1,127,000 (130.3%). This was caused primarily by an increase in capital grant funding.

**Revenues by source:**



CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
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Operating Expenses

Total operating expenses increased in 2015 versus 2014 by \$1,962,000 (8.1%). This was caused by an increase in the cost of transportation service, maintenance, administration and depreciation expense.

The cost of transportation service increased in 2015 versus 2014 by \$1,683,000 (10.4%). This was caused primarily by an increase in service provided. This increase was mostly related to human service transportation expense which, for the most part, is fully reimbursed by the Commonwealth's Human Service Transportation Department.

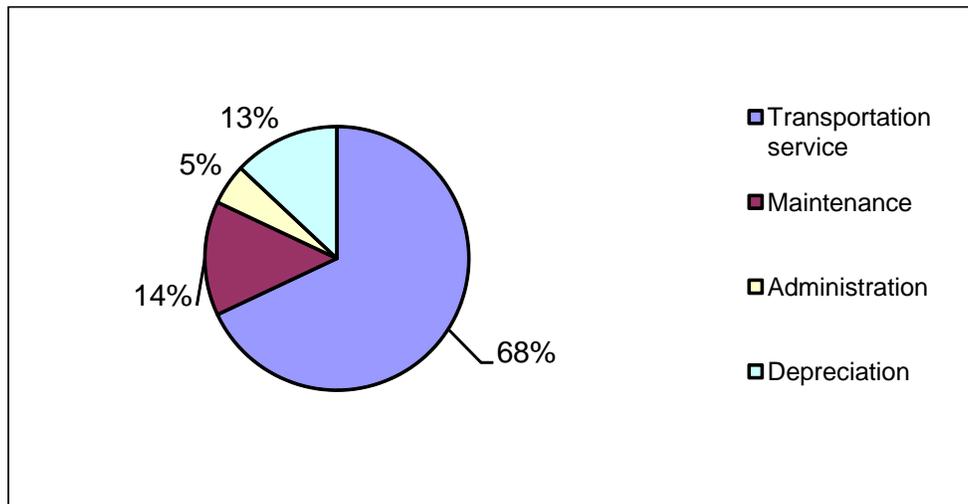
Maintenance expense and administrative expense increased in 2015 versus 2014 by \$191,000 (4.0%).

Depreciation expense increased in 2015 versus 2014 by \$88,000 (2.7%). This was primarily attributable to the addition of a full years' depreciation on 2014 acquisitions and half years' depreciation on 2015 acquisitions.

The Authority's operating loss increased in 2015 versus 2014 by \$680,000 (4.5%).

The cumulative effect of a change in accounting principle of \$1,828,000 was recorded in 2014. This was done to implement GASB No. 68. It was related to recording the net pension liability.

Expenses by source:



CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
JUNE 30, 2016

Capital Assets

The Authority's capital assets as of June 30, 2016, amounted to \$27,701,000, net of accumulated depreciation. The Authority's investment in capital assets includes land, buildings and structures, vehicles, office and maintenance equipment, and intangible assets. During 2016, the Authority invested \$4,346,000 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 \$3,863,000 and intangible assets of \$733,000, primarily for a transit oriented development plan and software purchases.

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

Revenue Anticipation Note

The Authority's revenue anticipation notes decreased in 2016 versus 2015 by \$1,553,000. This was possible due to improved cash flow procedures instituted by the Authority.

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>2014</u>	<u>2015</u>	<u>2016</u>
Farebox revenue	\$1,282,000	\$1,346,000	\$ 1,528,000
Contract revenue	7,691,000	8,909,000	10,744,000

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 years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through ix and the required supplementary information schedules on pages 22 and 23 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 24 through 27, is presented for purposes of additional analysis and is not a required part of the basic financial statements. These

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2016 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Bruce D. Norling, CPA, P.C.*

October 18, 2016

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

Statement of Net Position  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 629,860	\$ 3,627,196
Receivables	6,546,744	6,237,102
Other current assets	790,319	642,901
Total current assets	<u>7,966,923</u>	<u>10,507,199</u>
Restricted and noncurrent assets		
Restricted assets		
Cash and cash equivalents	131,189	47,735
Receivables capital assistance	714,032	1,104,204
Total restricted assets	<u>845,221</u>	<u>1,151,939</u>
Receivables	192,211	338,040
Capital assets, net	27,701,415	26,782,569
Total restricted and noncurrent assets	<u>28,738,847</u>	<u>28,272,548</u>
Total assets	36,705,770	38,779,747
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources	<u>146,067</u>	<u>3,132</u>
Total assets and deferred outflows of resources	<u>36,851,837</u>	<u>38,782,879</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expense	<u>2,737,129</u>	<u>3,273,079</u>
Total current liabilities	<u>2,737,129</u>	<u>3,273,079</u>
Restricted and noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable	255,158	386,955
Unearned revenue	101,096	47,735
Total liabilities payable from restricted assets	<u>356,254</u>	<u>434,690</u>
Revenue anticipation notes	8,402,192	9,954,834
Net pension liability	1,798,849	1,828,599
Total restricted and noncurrent liabilities	<u>10,557,295</u>	<u>12,218,123</u>
Total liabilities	<u>13,294,424</u>	<u>15,491,202</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pension	<u>179,434</u>	<u>15,491,202</u>
Total liabilities and deferred inflows of resources	<u>13,473,858</u>	<u>15,491,202</u>
<b>NET POSITION</b>		
Invested in capital assets	27,701,415	26,782,569
Restricted	488,967	717,249
Unrestricted	<u>(4,812,403)</u>	<u>(4,208,141)</u>
Total net position	<u>\$ 23,377,979</u>	<u>\$ 23,291,677</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Transportation services	\$ 12,272,153	\$ 10,255,144
Operating expenses		
Transportation service	19,237,506	17,914,297
Maintenance	3,388,513	3,532,546
General and administration	1,271,180	1,328,962
	<u>23,897,199</u>	<u>22,775,805</u>
Depreciation expense	3,357,025	3,285,265
	<u>27,254,224</u>	<u>26,061,070</u>
Operating loss	(14,982,071)	(15,805,926)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	4,908,061	6,057,907
Commonwealth of Massachusetts	4,394,256	4,385,709
Local	1,823,151	1,778,684
Interest expense	(54,663)	(38,559)
Other income	333,411	382,938
Gain (loss) on disposition of capital assets	52,321	
	<u>11,456,537</u>	<u>12,566,679</u>
Loss before capital contributions	(3,525,534)	(3,239,247)
Capital contributions		
Federal	1,558,581	2,534,900
Commonwealth of Massachusetts	2,047,691	932,616
Other	5,564	33,731
	<u>3,611,836</u>	<u>3,501,247</u>
Change in net position	86,302	262,000
Total net position		
Beginning of year	<u>23,291,677</u>	<u>23,029,677</u>
End of year	<u>\$ 23,377,979</u>	<u>\$ 23,291,677</u>

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

Statement of Cash Flows

Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from customers	\$ 12,029,188	\$ 9,338,584
Payments to vendors and suppliers	(23,574,190)	(20,669,367)
Payments to employees	(854,899)	(841,503)
Payments of fringe	<u>(159,084)</u>	<u>(180,398)</u>
Net cash used in operations	<u>(12,558,985)</u>	<u>(12,352,684)</u>
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	8,426,303	10,008,008
Repayment of revenue anticipation notes	(9,950,000)	(12,300,000)
Operating assistance grants	11,204,620	13,942,152
Interest expense	(99,499)	(123,000)
Other	<u>(3,132)</u>	<u>(3,132)</u>
Net cash provided by noncapital financing activities	<u>9,581,424</u>	<u>11,524,028</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(2,559,528)	(3,235,289)
Capital contributions		
United States Department of Transportation	1,935,727	2,288,408
Commonwealth of Massachusetts	253,128	1,151,288
Other	5,564	33,731
Proceeds from sale of equipment	<u>93,694</u>	<u>          </u>
Net cash provided by (used in) capital and related financing activities	<u>(271,415)</u>	<u>238,138</u>
Cash flows from investing activities		
Interest income	1,683	4,887
Other	<u>333,411</u>	<u>382,937</u>
Net cash provided by investing activities	<u>335,094</u>	<u>387,824</u>
Net decrease in cash and cash equivalents	(2,913,882)	(202,694)
Cash and cash equivalents at beginning of year	<u>3,674,931</u>	<u>3,877,625</u>
Cash and cash equivalents at end of year	<u>\$ 761,049</u>	<u>\$ 3,674,931</u>
Reconciliation of operating loss to net cash used in operations		
Operating loss	\$ (14,982,071)	\$ (15,805,926)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,357,025	3,285,265
Other	(21,814)	
Changes in assets and liabilities:		
Receivables, net	(242,965)	(916,560)
Other assets	(147,418)	(22,501)
Accounts payable and accrued expense	<u>(521,742)</u>	<u>1,107,038</u>
Net cash used in operations	<u>\$ (12,558,985)</u>	<u>\$ (12,352,684)</u>
Non-cash capital related financing activities		
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$ 1,918,325	\$
At June 30, 2016, the Authority had capital expenditures that were financed via accounts payable	\$ 255,158	\$ 386,955

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2016 and 2015

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.

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2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements (continued)

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

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

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

e) Restricted Assets and Restricted Liabilities – Restricted assets are restricted for the acquisition of capital assets, 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

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2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

l) 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 2016 and 2015, the Authority reported deferred outflows and deferred inflows related to its pension plan.

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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, 2016, the Authority does not have any uninsured or uncollateralized bank deposits.

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

	<u>2016</u>	<u>2015</u>
Balance per bank	\$ 970,732	\$ 3,675,605
Deposits covered by:		
Federal Depository Insurance Corporation	(250,000)	(250,000)
Collateralized with letter of credit	<u>(720,732)</u>	<u>(3,425,605)</u>
Total balance per banks	<u>\$ -</u>	<u>\$ -</u>

4. Grants

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

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5. Receivables

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

	<u>2016</u>	<u>2015</u>
United States Department of Transportation -		
Direct Federal Grants		
Operating grants	\$ 2,451,178	\$ 2,655,864
United States Department of Homeland Security		
Federal Emergency Management Agency		30,026
Commonwealth of Massachusetts		
Operating grants		
State contract assistance		110,736
Local operating assistance to be billed by the Commonwealth to the Towns constituting the Authority and paid by the Commonwealth to the Authority	2,381,188	2,114,892
Executive Office of Human Services		
Transportation	1,801,401	1,623,911
Other	<u>105,188</u>	<u>39,713</u>
Total Receivables	6,738,955	6,575,142
Less noncurrent receivables	<u>(192,211)</u>	<u>(338,040)</u>
Current receivables	<u>\$ 6,546,744</u>	<u>\$ 6,237,102</u>
Capital assistance		
Commonwealth of Massachusetts	\$ 254,781	\$ 106,408
Federal grants	<u>459,251</u>	<u>997,796</u>
Total Receivables capital grants	<u>\$ 714,032</u>	<u>\$ 1,104,204</u>

6. Other Current Assets

The other current asset balance includes inventory of motor vehicle parts and fuel for 2016 and 2015 of approximately \$294,000 in each year. 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, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 2,294,775	\$ -	\$ -	\$ 2,294,775
Contracts in Progress	528,127		528,127	-
Subtotal	<u>2,822,902</u>	-	<u>528,127</u>	<u>2,294,775</u>
Depreciable capital assets				
Buildings and structures	19,746,095	198,916		19,945,011
Vehicles	19,595,393	3,862,646	1,155,782	22,302,257
Equipment	2,696,182	79,663	33,997	2,741,848
Intangible assets	2,749,009	732,958	267,451	3,214,516
Subtotal	<u>44,786,679</u>	<u>4,874,183</u>	<u>1,457,230</u>	<u>48,203,632</u>
Accumulated depreciation	<u>20,827,012</u>	<u>3,357,025</u>	<u>1,387,045</u>	<u>22,796,992</u>
Net depreciable capital assets	<u>23,959,667</u>	<u>1,517,158</u>	<u>70,185</u>	<u>25,406,640</u>
Net depreciable and net capital assets	<u>\$ 26,782,569</u>	<u>\$ 1,517,158</u>	<u>\$ 598,312</u>	<u>\$ 27,701,415</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 2,294,775	\$ -	\$ -	\$ 2,294,775
Contracts in Progress	746,665	104,020	322,558	528,127
Subtotal	<u>3,041,440</u>	<u>104,020</u>	<u>322,558</u>	<u>2,822,902</u>
Depreciable capital assets				
Buildings and structures	18,584,801	1,161,294		19,746,095
Vehicles	17,899,670	1,695,723		19,595,393
Equipment	2,677,967	18,215		2,696,182
Intangible assets	2,427,498	321,511		2,749,009
Subtotal	<u>41,589,936</u>	<u>3,196,743</u>	-	<u>44,786,679</u>
Accumulated depreciation	<u>17,541,747</u>	<u>3,285,265</u>		<u>20,827,012</u>
Net depreciable capital assets	<u>24,048,189</u>	<u>(88,522)</u>	-	<u>23,959,667</u>
Net depreciable and net capital assets	<u>\$ 27,089,629</u>	<u>\$ 15,498</u>	<u>\$ 322,558</u>	<u>\$ 26,782,569</u>

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7. Capital Assets and Depreciation (continued)

The above land amount is inclusive of a related party capital lease in the amount of \$1,430,000, refer to Note 10 for lease details.

Depreciation expense for 2016 and 2015 was \$3,357,025 and \$3,285,265, respectively.

8. Accounts Payable and Accrued Expense

The accounts payable and accrued expense balance at June 30, 2016 and 2015 is disaggregated as follows:

	<u>2016</u>	<u>2015</u>
Payable to general vendors	\$ 2,505,339	\$ 3,043,834
Accrued salaries and benefits	154,790	138,037
Accrued interest	77,000	91,208
	<u>\$ 2,737,129</u>	<u>\$ 3,273,079</u>

9. Revenue Anticipation Notes

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

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 9,954,834	\$ 12,304,838
New notes issued	8,426,303	10,008,008
Notes retired	(9,978,945)	(12,358,012)
	<u>\$ 8,402,192</u>	<u>\$ 9,954,834</u>

The RAN outstanding at June 30, 2016, has an interest rate of 1.0% (effective interest rate is 0.6% after accounting for premium), and is due in July, 2016. The above balance is inclusive of an unamortized premium of \$2,192.

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

The RAN is expected to be refinanced upon maturity with generally the same terms as the note currently outstanding. Therefore, it is short-term debt expected to be refinanced and is thus classified as long-term debt.

10. 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.

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11. Employees' Retirement Benefits

The Authority sponsors two retirement plans for its employees.

a) 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.

*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, 2016, was 19.84% 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 2016 and 2015 were \$157,188 and \$171,914, respectively.

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

At June 30, 2016 and 2015, the Authority reported a liability of \$1,798,849 and \$1,828,599, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Update procedures were used to roll forward the total pension liability to December 31, 2015. The Authority's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Authority's proportion of net pension liability was .286 percent.

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11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

Since BCRA performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2015.

For the year ended June 30, 2016, the Authority recognized pension expense of \$163,937 and reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 142,749	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,318	179,434
Total deferred outflows and inflows	\$ 146,067	\$ 179,434

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

Year		Amount
2017	\$	637
2018		637
2019		637
2020		(55)
2021		35,223

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

Actuarial cost method	Entry age normal cost method
Amortization method	Payments increase at 4.0 percent
Asset valuation method	Sum of actuarial value at beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.

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11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

Actuarial Assumptions (continued)

Remaining amortization period	22 years
Inflation	4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation
Cost of living adjustments	3.0 percent of first \$15,000 of retirement income
Rates of retirement	Varies based on age
Rates of disability	45 percent of all disabilities are ordinary (55 percent are service related)
Mortality rates:	
Pre-retirement	The RP-2000 Employee Mortality Table projected generationally with a Scale AA from 2010.
Healthy Retiree	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale AA from 2010.
Disabled Retiree	The RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally with a Scale AA from 2010.

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

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11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	20.00%	6.60%
International developed markets equity	16.00%	7.10%
International emerging markets equity	7.00%	9.40%
Core fixed income	13.00%	2.20%
High-yield fixed income	10.00%	4.70%
Real estate	10.00%	4.40%
Commodities	4.00%	4.40%
Hedge fund, GTAA, Risk parity	10.00%	3.90%
Private equity	10.00%	11.70%
Total	100.00%	

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

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11. Employees' Retirement Benefits (continued)

Pension Plan (continued)

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

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

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Authority's proportionate share of the net pension liability	\$ 2,281,212	\$ 1,798,849	\$ 1,389,478

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

b) Deferred Compensation Plan

The Authority has a deferred compensation plan, the Cape Cod Regional Transit Authority Deferred Compensation Plan ("the Plan"), in accordance with Internal Revenue Code Section 457, available to all employees. Under the terms of the Plan, employees who wish to participate may contribute up to a maximum of \$15,500 each year. The Authority did not contribute to the Plan in 2016 or 2015.

12. Commitments and Contingencies

- a) Purchase commitments – As of June 30, 2016 and 2015 the Authority had purchase commitments of approximately none and \$56,000, respectively.
- 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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12. 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.

13. Related Party Transactions

Transactions with MassDOT and the Commonwealth are as follows:

- a. Receivables are delineated in Note 5.  
b. The capital lease with the Commonwealth is referred to in Note 7 and 10.  
c. Actual operating and capital assistance for 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Operating assistance		
Commonwealth appropriations	\$ 4,495,352	\$ 4,385,709
Local communities' assistance	1,823,151	1,778,684
Capital assistance		
Commonwealth appropriations	2,047,691	932,616
Executive Office of Human Services Transportation	<u>10,744,036</u>	<u>8,909,062</u>
Total related party transactions	<u>\$ 19,110,230</u>	<u>\$ 16,006,071</u>

14. Subsequent Event

Subsequent to June 30, 2016, the Authority issued a \$7,900,000 revenue anticipation note with an interest rate of 2% (effective interest rate of .73 after accounting for premium). This RAN will mature in July, 2017 and is guaranteed by the Commonwealth of Massachusetts.

The Authority evaluated subsequent events through October 18, 2016, when the financial statements were available to be issued, and determined that there are no other material items that would require recognition or disclosure in the Authority's financial statements.

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June 30, 2016 and 2015

15. Reserve for Extraordinary Expense

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses in an amount not to exceed three percent of the prior year's local assessment. Any balance in the reserve account at the end of the fiscal year may be carried forward into the next fiscal year; provided, however, that the aggregate amount in the account does not exceed twenty percent of the prior year's local assessment. The Authority increased the reserve for extraordinary expense by \$53,361 and \$47,735 in 2016 and 2015. The aggregate reserve balance at June 30, 2016 and 2015 was \$101,096 and \$47,735, respectively. The reserve for extraordinary expense is included in unearned revenue in the accompanying statement of net position.

16. Post Employment Healthcare Benefits

On September 19, 2012, the Advisory Board approved a proposal to authorize the Authority to institute a post employment healthcare plan. The specifics of the Plan have not been formalized as yet. The Authority intends to formalize the Plan in fiscal year 2017. It deposited \$30,048 in a separate bank account to be contributed to the Plan in 2017.

16. 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. This strategy has saved the Authority approximately \$669,000 during the current year. 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.

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

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

	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.286%	0.324%
Authority's proportionate share of the net pension liability	\$ 1,798,849	\$ 1,828,599
Authority's covered-employee payroll	\$ 792,231	\$ 849,571
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	227.06%	215.24%
Plan fiduciary net position as a percentage of the total pension liability	58.10%	60.43%

Notes to Required Supplementary Information

Measurement Date

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

Schedule Presentation

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

Changes Information

Since the Barnstable County Retirement Association performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2015.

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

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

	<u>2016</u>	<u>2015</u>
Actuarially required contribution	\$ 157,188	\$ 171,914
Contributions in relation to the actuarially required contribution	<u>(157,188)</u>	<u>(171,914)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 792,231	\$ 849,571
Contributions as a percentage of its covered-employee payroll	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

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

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

Schedule 1

Statement of Costs (Unaudited)  
June 30, 2016  
Form 1

	<u>Total Area Service</u>
Operating costs	
RTA administrative costs (excluding depreciation)	\$ 1,239,556
Purchased services	
Fixed route	5,974,797
Demand response	5,881,173
Brokerage services	10,744,036
Rail - Cape Flyer	55,954
Debt Service	56,346
Total operating costs	<u>23,951,862</u>
Federal operating assistance	
FTA operating and administrative	5,081,155
Revenues	
Operating	
Farebox revenue	1,528,117
Brokerage service reimbursement	10,744,036
Rail - Cape Flyer	18,450
Other revenues	
Advertising	
Parking	239,327
Sale of capital assets	52,321
Interest income	1,683
Miscellaneous	73,950
Total revenues	<u>12,657,884</u>
Net operating deficit	6,212,823
Adjustments	
Extraordinary expenses (not to exceed 2.5% of prior year's local assessment)	53,361
Unearned revenue adjustment	47,735
Other	4,584
	<u>105,680</u>
Net cost of service	<u>6,318,503</u>
Net cost of service funding	
Local assessments	1,823,151
State contract assistance	4,495,352
Total net cost to be funded	<u>6,318,503</u>

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

Schedule 2

Statement of Costs-Calculation Worksheet and Supplementary Data (Unaudited)  
June 30, 2016  
Form 2

I. Proof calculations and other required information:

A. Prior year operating exp., net of fully funded brokerage serv. costs	\$	13,908,504
Allowable percentage increase:		2.50%
Prior year, net operating expenses times 2.5%		<u>347,713</u>
Current year, allowable net operating expense		<u>14,256,217</u>
Plus adjustments:		
Brokerage funded costs		10,744,036
Adjust to current year operating expense		<u>(1,048,392)</u>
Current year total operating expense	\$	<u><u>23,951,861</u></u>
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	\$	53,361
Prior year local assessment		<u>1,778,684</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)		<u>3%</u>
C. Aggregate amount of reserve account at June 30.	\$	101,096
Prior year local assessment		<u>1,778,684</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)		<u>6%</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.		45%
G. Stabilization Fund:		
1. Current year	\$	-
2. Aggregate balance	\$	<u>-</u>

Schedule of Local (Towns) Funding (Unaudited)

June 30, 2016

<u>Community</u>	<u>Share</u>
Barnstable	\$ 564,896
Bourne	90,640
Brewster	50,051
Chatham	16,972
Dennis	100,402
Eastham	50,007
Falmouth	178,997
Harwich	100,277
Mashpee	101,762
Orleans	83,186
Provincetown	100,051
Sandwich	135,486
Truro	50,039
Wellfleet	50,135
Yarmouth	<u>150,250</u>
	<u>\$ 1,823,151</u>

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

Schedule 4

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

<u>Title</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>Severance</u>	<u>Retirement Contribution</u>	<u>Other</u>
Administrator	\$ 124,750	\$ -	\$ -	\$ 14,935	\$ 6,381