

**METROPOLITAN TRANSIT AUTHORITY
NASHVILLE, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

JUNE 30, 2018 AND 2017

METROPOLITAN TRANSIT AUTHORITY

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METROPOLITAN TRANSIT AUTHORITY

INTRODUCTION

The Nashville Metropolitan Transit Authority (“MTA”) is pleased to present its Annual Financial Report for the years ended June 30, 2018 and 2017.

Responsibility and Controls

MTA has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

MTA’s system of internal accounting controls is evaluated on an ongoing basis by MTA’s internal financial staff. Crosslin, PLLC, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that MTA’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of MTA as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unmodified opinion of our independent external auditors, Crosslin, PLLC, is included in this report.

METROPOLITAN TRANSIT AUTHORITY
JUNE 30, 2018

BOARD OF DIRECTORS

| | |
|-----------------------|------------|
| Gail Carr Williams | Chair |
| Janet Miller | Vice Chair |
| Glenn Farner | Member |
| Hannah Paramore Breen | Member |
| Walter Searcy | Member |

EXECUTIVE STAFF

| | |
|-----------------------|------------------------------|
| Stephen G. Bland | Chief Executive Officer |
| Edward W. Oliphant | Chief Financial Officer |
| India Birdsong | Chief Operating Officer |
| Rita Roberts - Turner | Chief Administrative Officer |
| Julie E. Timm | Chief Development Officer |



Independent Auditor's Report

Board of Directors
Metropolitan Transit Authority
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Transit Authority ("MTA"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise MTA'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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Transit Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, in fiscal year 2018, MTA adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 6 to 18 and the pension plan and other postemployment benefits schedules on pages 59 to 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise MTA’s basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules of expenditures of federal, state and local awards are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee, and are also not a required part of the basic financial statements.



The schedules of expenditures of federal, state and local awards 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 2018 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 of expenditures of federal, state and local awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, on our consideration of MTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MTA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MTA's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
October 31, 2018

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

This section of the MTA's annual financial report presents our discussion and analysis of financial performance during the fiscal years ended June 30, 2018 and 2017, as compared to fiscal years 2017 and 2016, respectively. Please read it in conjunction with the introductory section of this report and the MTA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2018

- Operating revenue for 2018 decreased 14.2% from 2017 and totaled approximately \$11.7 million for fiscal 2018 compared to \$13.6 million in 2017. The decrease was primarily the result of a fare structure change that began in August 2017 allowing free transfers for up to two hours after the initial trip for a second bus ride as opposed to the old policy of requiring a payment for each bus ride. The estimated impact of the revenue decrease due to free transfers was subsidized through an increase in our Metro Government annual subsidy totaling approximately \$2.7 million.
- Operating expenses increased approximately 2.4% from 2017 and totaled approximately \$101.4 million for fiscal 2018.
- Net non-operating revenue and capital contributions increased 16.8%, or \$12.8 million, to approximately \$89.2 million for fiscal year 2017. The primary reason for the increase was an increase in capital contributions in fiscal year 2018 compared to 2017. While both fiscal years included grant funding for capital purchases for additional vehicles, equipment and improvements, the current year capital purchase activity increased approximately 62.5% compared to prior year. Another contributing factor to our increase was a 15.7% increase, or \$6.6 million, in our operating subsidy from the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metropolitan Government") compared to the prior year. The increases were partially offset due to fiscal year 2017 including the sale of the Clement Landport which resulted in a gain of approximately \$6.5 million.

Fiscal Year 2017

- Operating revenue for 2017 decreased 3.1% from 2016 and totaled approximately \$13.6 million for fiscal 2017.
- Operating expenses increased approximately 6.3% from 2016 and totaled approximately \$99.0 million for fiscal 2017.
- Net non-operating revenue and capital contributions increased 12.9%, or \$8.8 million, to approximately \$76.4 million for fiscal year 2017. The primary reason for the increase was the sale of the Clement Landport which resulted in a gain of approximately \$6.5 million. The proceeds from the sale are being used on building improvement projects at our Music City Central, Myatt and Nestor properties. Another contributing factor to last year's increase was a 5% increase, or \$2.0 million, in our operating subsidy from the Metropolitan Government compared to the prior year. While both 2017 and 2016 fiscal years included grant funding for capital purchases for additional vehicles, equipment and improvements, fiscal year 2017 capital purchase activity increased approximately 3.3% compared to 2016.

METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of five parts: the introductory section, management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, required supplementary information, and additional information.

The financial statements provide both long-term and short-term information about MTA's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The section of additional information includes schedules of federal, state and local awards and the notes thereto.

The financial statements include MTA's blended component unit, Davidson Transit Organization (DTO). DTO is a section 501(c)(3) not-for-profit organization that was formed for the purpose of providing all the necessary labor for the operation of MTA's transit system as a result of state laws. DTO is financially dependent on MTA and is reimbursed by MTA, at cost, for all salaries, wages and fringe benefits. According to generally accepted accounting principles, DTO is a blended component unit for financial reporting purposes. All interagency transactions and balances have been eliminated.

MTA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All revenues and expenses including depreciation of assets are recognized in the Statements of Revenues, Expenses and Changes in Net Position. All assets, deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of MTA are included in the Statements of Net Position.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

These financial statements also include the required adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension* ("OPEB"), which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The new Statement requires the calculation of a present liability for future non-pension benefits for employees and retirees at a discount rate based upon a specific external index which is lower than was typically used by actuaries under Statement No. 45. The new Statement also requires the total OPEB liability be recognized immediately on the balance sheet as opposed to the gradual recognition allowed under Statement No. 45. The 2017 amounts have been restated within this MD&A section for comparison purposes to 2018. However, it was not practical to restate the 2016 amounts for the adoption of GASB Statement No. 75. Accordingly, the 2017 amounts have not been restated in this MD&A section when 2017 is compared to 2016. Details of the restatement can be found in Note A to the financial statements.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

FINANCIAL ANALYSIS OF MTA

Net Position

Fiscal year 2018 as compared to fiscal year 2017:

MTA's net position at June 30, 2018, totaled approximately \$56.2 million, a 1.0% decrease compared to June 30, 2017 (See Table A-1). Total assets and deferred outflows of resources increased 1.4% to approximately \$162.7 million and total liabilities and deferred inflows of resources increased 2.7% to approximately \$106.6 million.

Table A-1
Metropolitan Transit Authority's Net Position
(in thousands of dollars)

| | 2018 | 2017 (1) | Percentage Change 2018-2017 |
|--|------------------|------------------|--|
| Current assets | \$ 15,947 | \$ 13,479 | 18.3% |
| Restricted cash | 8,688 | 13,314 | (34.7%) |
| Property and equipment, net | 131,441 | 126,728 | 3.7% |
| Designated assets held for self insurance | 350 | 350 | - |
| Deferred outflows of resources | 6,305 | 6,636 | (5.0%) |
| Total assets and deferred outflows of resources | 162,731 | 160,507 | 1.4% |
| Current liabilities | 17,615 | 12,486 | 41.1% |
| Advance lease receipts | 8,557 | 9,148 | (6.5%) |
| Refundable grants | 1,132 | 5,186 | (78.2%) |
| Net pension liability | 15,208 | 16,973 | (10.4%) |
| Net other postemployment benefits | 62,759 | 58,752 | 6.8% |
| Deferred inflows of resources | 1,307 | 1,262 | 3.6% |
| Total liabilities and deferred inflows of resources | 106,578 | 103,807 | 2.7% |
| Net position: | | | |
| Net investment in capital assets | 119,045 | 117,008 | 1.7% |
| Restricted | 7,407 | 8,128 | (8.9%) |
| Unrestricted | (70,299) | (68,436) | (2.7%) |
| Total net position | \$ 56,153 | \$ 56,700 | (1.0%) |

(1) As restated for GASB Statement No. 75

The 1.4% increase in total assets and deferred outflow of resources was primarily due to a \$4.7 million increase in net property and equipment. There were also increases in unrestricted cash and cash equivalents of approximately \$3.2 million, a \$0.1 million increase in receivables from federal, state and local governments and a \$0.5 million increase in the effective portion of our fuel hedging program. These increases were partially offset by decreases in restricted cash of approximately \$4.6 million, accounts receivable of \$0.4 million, materials and supplies of \$0.4 million as well as a decrease in deferred outflows related to our pension plan of approximately \$0.8 million.

METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued

The increase in property and equipment was primarily due to net additions and disposals of approximately \$24.1 million being offset by approximately \$15.7 million of depreciation expense. The changes in cash and cash equivalents, accounts receivable and prepaid expenses were primarily due to the timing of federal and state grant receivables when compared to the prior year and having more prepaid expenses actually paid before year-end compared to last year. The change in restricted cash mainly relates to Federal Emergency Management Agency (FEMA) funding from the 2010 flood and proceeds from the sale of the Clement Landport being utilized during fiscal year 2018 for designated transit bus replacement purchases for buses lost in the flood as well as designated improvements to our Nestor and Music City Central properties as approved by the Federal Transit Administration (FTA).

These financial statements also include the required accounting and financial reporting under Governmental Accounting Standards Board (GASB) Statement No. 68 related to the accounting and financial reporting of pension plan liability. Since MTA guarantees the pension obligations and payments of the pension plan in place for DTO and the Amalgamated Transit Union, the impact of this GASB statement is reflected in the current financial statements. The deferred outflows related to our pension plan represent employer pension contributions made during each fiscal year as well as certain differences between expected and actual results of the pension plan. This item is required to be recorded based upon the implementation of GASB Statement No. 68. See Note J in the notes to the financial statements.

The increase in current liabilities was due primarily to timing differences compared to prior year. Specifically, notes payable relate to differences in timing of expenditures and related grant reimbursements that are used to pay down notes payable as well as an increase in our reserve for workers' compensation injuries due to a recent increase in frequency and severity of employee injuries. The decrease in advance lease receipts represents the continued amortization of capital received from the State in 2008 as it relates to contributions made to construct Music City Central and cash received from Metro Government in 2010 related to the purchase of our Myatt property after the flood in 2010. Both arrangements require MTA to provide certain facilities for a specified period in exchange for the advance receipts. The refundable grants represent \$1.1 million in restricted cash from FEMA grants that cannot be recognized until the actual vehicle replacement purchases have taken place. The decrease in refundable grants represents \$4.1 million in restricted cash used from those FEMA grants for eligible vehicle replacement purchases that occurred during fiscal year 2018. Net pension liability represents the actuarially determined net pension liability using the discounted rate of return of 7.75%, which is the assumed long-term rate of return on the pension plan assets. Net other postemployment benefits, which increased approximately \$4.0 million, are now recorded based upon the requirements of GASB No. 75 as previously explained. Adoption of the new Statement resulted in a restatement of our OPEB liability for fiscal year 2017 to \$58.7 million, a \$15.8 million increase. See Note A to the financial statements for changes relating to accounting and financial reporting for other postemployment benefits.

Fiscal year 2017 as compared to fiscal year 2016:

MTA's net position at June 30, 2017 totaled approximately \$72.5 million, an 11.1% decrease compared to June 30, 2016 (See Table A-2). Total assets and deferred outflows of resources decreased 1.3% to approximately \$160.5 million and total liabilities and deferred inflows of resources increased 8.5% to approximately \$88.0 million.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Table A-2
Metropolitan Transit Authority's Net Position
(in thousands of dollars)

| | 2017 (2) | 2016 | Percentage Change 2017-2016 |
|--|------------------|------------------|--|
| Current assets | \$ 13,479 | \$ 14,657 | (8.0%) |
| Restricted cash | 13,314 | 4,488 | 196.7% |
| Property and equipment, net | 126,728 | 136,903 | (7.4%) |
| Designated assets held for self insurance | 350 | 350 | - |
| Deferred outflows of resources | 6,636 | 6,256 | 6.1% |
| Total assets and deferred outflows of resources | 160,507 | 162,654 | (1.3%) |
| Current liabilities | 12,486 | 12,945 | (3.5%) |
| Advance lease receipts | 9,148 | 9,738 | (6.1%) |
| Refundable grants | 5,186 | 3,750 | 38.3% |
| Net pension liability | 16,973 | 14,497 | 17.1% |
| Net other postemployment benefits | 42,936 | 37,174 | 15.5% |
| Deferred inflows of resources | 1,262 | 3,009 | (58.1%) |
| Total liabilities and deferred inflows of resources | 87,991 | 81,113 | 8.5% |
| Net position: | | | |
| Net investment in capital assets | 117,008 | 124,676 | (6.2%) |
| Restricted | 8,128 | 738 | 1,001.4% |
| Unrestricted | (52,620) | (43,873) | (19.9%) |
| Total net position | \$ 72,516 | \$ 81,541 | (11.1%) |

(2) Not restated for GASB Statement No. 75 in order to compare to 2016

The 1.3% decrease in total assets and deferred outflow of resources was primarily due to a \$10.2 million decrease in net property and equipment. There were also decreases in unrestricted cash and cash equivalents of approximately \$2.7 million and \$0.5 million decrease in prepaid expenses and other current assets. These decreases were partially offset by increases in restricted cash of approximately \$8.8 million, accounts and grants receivable of \$1.5 million, materials and supplies of \$0.5 million and an increase in deferred outflows related to our pension plan of approximately \$0.2 million.

The decrease in property and equipment when compared to 2016 was primarily due to net additions and disposals of approximately \$5.8 million being offset by approximately \$16.0 million of depreciation expense. The changes in cash and cash equivalence and prepaid expenses were primarily due to the timing of federal and state grant receivables when compared to the 2016 and having fewer prepaid expenses actually paid before year-end compared to 2016. The change in restricted cash mainly relates to proceeds from the sale of the Clement Landport. The Federal Transit Administration ("FTA") approved the use of the proceeds for other capital projects related to improvements at our Myatt, Nestor and Music City Central properties.

The decrease in current liabilities in fiscal year 2017 compared to 2016 was due primarily to timing differences compared to prior year. Specifically, notes payable relate to differences in timing of expenditures and related grant reimbursements that are used to pay down notes payable. The decrease in advance lease receipts represents the continued amortization of capital

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

received from the State in 2008 as it relates to contributions made to construct Music City Central and cash received from Metro Government in 2010 related to the purchase of our Myatt property after the flood in 2010. Both arrangements require MTA to provide certain facilities for a specified period in exchange for the advance receipts. The refundable grants represent \$5.2 million in restricted cash from FEMA grants that cannot be recognized until the actual vehicle replacement purchases have taken place. Net pension liability represents the actuarially determined net pension liability using the discounted rate of return of 7.75%, which is the assumed long-term rate of return on the pension plan assets.

Revenues, Expenses and Changes in Net Position

While the Statements of Net Position show the financial position of MTA at year-end, the Statements of Revenues, Expenses and Changes in Net Position provide answers to the nature and source of the changes in MTA's financial position.

Fiscal year 2018 as compared to fiscal year 2017:

The excess of expenses over revenues and capital contributions for the year ended June 30, 2018, was approximately \$0.5 million compared to approximately \$9.0 million for the year ended June 30, 2017 (See Table A-3). MTA's total operating revenues decreased 14.2% to approximately \$11.7 million, or \$1.9 million, from approximately \$13.6 million in the prior fiscal year. Total operating expense, including depreciation, increased 2.4% to approximately \$101.4 million from approximately \$99.0 million in the prior fiscal year.

Table A-3
Changes in Metropolitan Transit Authority's Net Position
(in thousands of dollars)

| | 2018 | 2017 (1) | Percentage Change 2018-2017 |
|---|------------------|------------------|--|
| Operating revenue: | | | |
| Passenger fares | \$ 7,199 | \$ 9,249 | (22.2%) |
| Contracts and other revenue | 4,484 | 4,363 | 2.8% |
| Total operating revenue | 11,683 | 13,612 | (14.2%) |
| | | | |
| Operating expense: | | | |
| Operating expense | 85,702 | 82,991 | 3.3% |
| Depreciation | 15,721 | 16,011 | (1.8%) |
| Total operating expense | 101,423 | 99,002 | 2.4% |
| | | | |
| Operating loss | (89,740) | (85,390) | 5.1% |
| Net non-operating revenue and capital contributions | 89,193 | 76,365 | 16.8% |
| Decrease in net position | (547) | (9,025) | (93.9%) |
| | | | |
| Total net position, beginning of year | 56,700 | 65,725 | (13.7%) |
| Total net position, end of year | \$ 56,153 | \$ 56,700 | (1.0%) |

(1) As restated for GASB Statement No. 75

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

The 14.2% overall decrease in operating revenue was primarily due to the introduction of free transfers in August 2017 which allowed one free transfer to another bus for up to two hours after the initial bus trip as opposed to the old policy of a requiring payment for each bus ride. The estimated impact for the anticipated revenue decrease due to free transfers was subsidized through an increase in our Metro Government annual subsidy totaling approximately \$2.7 million. The decrease was partially off-set by a 1.7% overall increase in ridership compared to the prior year, a 5.8% increase in advertising revenues as well as a slight increase in contract revenue as a result of a 3% increase in our operating contracts with the Regional Transportation Authority. Net non-operating revenue and capital contributions increased 16.8%, or \$12.8 million, to approximately \$89.2 million for fiscal year 2018. The primary reason for the increase was an \$11.9 million increase in eligible capital grant funding being spent compared to the prior year for ongoing capital improvements at our Nestor and Music City Central properties as well as more buses being replaced. Additionally, we had an increase of \$6.6 million, or 15.7%, in our annual subsidy from the Metropolitan Government. These increases were partially off-set by the fact that the prior year included a one-time gain of approximately \$6.5 million on the sale of the Clement Landport.

Table A-4
Metropolitan Transit Authority's Operating Expense
(in thousands of dollars)

| Bus: | 2018 | 2017 | Percentage Change 2018-2017 |
|--------------------------------|-------------------|------------------|-----------------------------------|
| Labor and fringes | \$ 56,574 | \$ 56,577 | (-) |
| Purchased services | 5,091 | 4,559 | 11.7% |
| Materials and supplies | 10,884 | 9,133 | 19.2% |
| Other | 3,999 | 3,647 | 9.7% |
| Depreciation | 15,721 | 16,011 | (1.8%) |
| Elderly and disabled | 8,945 | 8,858 | 1.0% |
| Planning | 209 | 217 | (3.7%) |
| Total operating expense | \$ 101,423 | \$ 99,002 | 2.4% |

Labor and fringes expense was basically flat in fiscal year 2018 as compared to 2017. There were increases due to actuarially calculated health insurance and workers' compensation expenses along with a 2.0% - 2.5% contractually agreed-upon increase in wages including built in wage step increases ranging from 5% to 7% depending on where employees are in their four-year wage progression. However, these increases were off-set by a decrease in actuarially determined pension and other post-employment benefit expenses compared to 2017.

METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued

The 11.7% increase in purchased services was primarily due to an increase in software maintenance services related to our Computer Aided Dispatch and Automatic Vehicle Location software (CAD/AVL) that was implemented during fiscal year 2017 as well as increased security expenses and certain consulting expenses related to our health and pension plans compared to the prior year. There was also an increase in marketing expenses related to our WeGo Public Transit rebranding effort that was announced in June 2018. These increases were partially off-set by a decrease in other consultant expenses related to a comprehensive operational analysis and maintenance study both of which were performed in the prior year. The increase in security services involved having a full year of a required change in our contract during the latter part of fiscal year 2017 with the Metropolitan Police Department that resulted in higher minimum requirements for the use of off-duty officers. The comprehensive operational analysis was a study of our existing service and routing that will enable MTA to optimize future operations. The maintenance study in 2017 related to our effort to implement a more comprehensive and effective maintenance shop plan to keep buses and vans on the street.

The 19.2% increase in materials and supplies was primarily due to higher overall diesel and gasoline prices compared to last year along with increased parts expense related to bus and van repairs along with other materials and supplies expenses.

Other expense increased 9.7% in fiscal year 2018 compared to the prior year. The increase was primarily due to a 2.5% increase in insurance premiums and a 6.2% increase in accident claims paid through the end of fiscal year 2018 as well as an increase in advertising media and training. These increases were partially offset by decreased expenses related to subscriptions, leased equipment and other miscellaneous expenses compared to the prior year.

The 1.8% decrease in depreciation expense is primarily related to the sale of the Clement Landport during fiscal year 2017 resulting in less depreciation being recorded during the current year. There were also some buses and support vehicles that became fully depreciated during fiscal year 2018 resulting in less depreciation being recorded compared to the prior year.

Elderly and Disabled expense increased 1.0% primarily as a result of increased operator labor expenses as well as maintenance expenses for paratransit services as we expand our in-house service compared to the prior fiscal year.

Fiscal year 2017 as compared to fiscal year 2016:

The excess of expenses over revenues and capital contributions for the year ended June 30, 2017 was approximately \$9.0 million compared to approximately \$11.5 million for the year ended June 30, 2016 (See Table A-5). MTA's total operating revenues decreased 3.1% to approximately \$13.6 million, or \$0.4 million, from approximately \$14.1 million in the 2016. Total operating expense, including depreciation, increased 6.3% to approximately \$99.0 million from approximately \$93.1 million in fiscal year 2016.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Table A-5
Changes in Metropolitan Transit Authority's Net Position
(in thousands of dollars)

| | 2017 (2) | 2016 | Percentage Change 2017-2016 |
|---|------------------|------------------|--|
| Operating revenue: | | | |
| Passenger fares | \$ 9,249 | \$ 9,562 | (3.3%) |
| Contracts and other revenue | 4,363 | 4,490 | (2.8%) |
| Total operating revenue | 13,612 | 14,052 | (3.1%) |
| Operating expense: | | | |
| Operating expense | 82,991 | 76,961 | 7.8% |
| Depreciation | 16,011 | 16,151 | (0.9%) |
| Total operating expense | 99,002 | 93,112 | 6.3% |
| Operating loss | (85,390) | (79,060) | 8.0% |
| Net non-operating revenue and capital contributions | 76,365 | 67,610 | 12.9% |
| Decrease in net position | (9,025) | (11,450) | (21.2%) |
| Total net position, beginning of year | 81,541 | 92,991 | (12.3%) |
| Total net position, end of year | \$ 72,516 | \$ 81,541 | (11.1%) |

(2) Not restated for GASB Statement No. 75 in order to compare to 2016

The 3.1% overall decrease in operating revenue for 2017 was primarily due to a 2.7% overall decrease in ridership compared to the prior year as well as a decrease in advertising revenues. These decreases were partially off-set by a slight increase in contract revenue. The increase in contract revenues was primarily the result of a 3% increase in our operating contracts with the Regional Transportation Authority. Net non-operating revenue and capital contributions increased 12.9%, or \$8.8 million, to approximately \$76.4 million for fiscal year 2017. The primary reason for the increase was a \$6.5 million gain on the sale of the Clement Landport as well as a \$2 million, or 5%, increase in our annual subsidy from the Metropolitan Government.

Table A-6
Metropolitan Transit Authority's Operating Expense
(in thousands of dollars)

| | 2017 | 2016 | Percentage Change 2017-2016 |
|--------------------------------|------------------|------------------|--|
| Bus: | | | |
| Labor and fringes | \$ 56,577 | \$ 49,020 | 15.4% |
| Purchased services | 4,559 | 5,162 | (11.7%) |
| Materials and supplies | 9,133 | 10,521 | (13.2%) |
| Other | 3,647 | 3,905 | (6.6%) |
| Depreciation | 16,011 | 16,151 | (0.9%) |
| Elderly and disabled | 8,858 | 8,150 | 8.7% |
| Planning | 217 | 203 | 6.9% |
| Total operating expense | \$ 99,002 | \$ 93,112 | 6.3% |

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Labor and fringes expense increased \$7.6 million, or 15.4%, in fiscal year 2017 as compared to 2016. The increase was primarily due to actuarially calculated health insurance, pension, workers' compensation and other post-employment benefit expenses compared to 2016. The increase is also due to a 2.3% - 2.7% contractually agreed-upon increase in wages as well as contractually built in wage step increases ranging from 5% to 7% depending on where employees are in their four-year wage progression.

The 11.7% decrease in purchased services in 2017 was primarily due to decreased legal fees compared to 2016. The 2016 expense included two lawsuit settlements and the related attorney's fees that did not continue into fiscal year 2017. This decrease was partially offset by increased security and consultant expenses related to a comprehensive operational analysis as well as building maintenance expenses in 2017 compared to 2016. The increase in security services involved a required change in our contract with the Metropolitan Police Department that resulted in higher minimum requirements for the use of off-duty officers. The comprehensive operational analysis is a study of our existing service and routing that will enable MTA to optimize future operations. This type analysis is typically done every five years in order to maintain and improve operational efficiencies. The increase in building maintenance related to our effort to implement improved facilities maintenance plans for our three properties at Nestor, Myatt and Music City Central.

The 13.2% decrease in materials and supplies in 2017 was primarily due to lower fuel costs as a result of lower overall diesel and gasoline prices compared to last year. These decreases were partially offset by increased parts expense related to bus and van repairs along with other materials and supplies expenses.

Other expense decreased 6.6% in fiscal year 2017 compared to 2016. The decrease was primarily due to a decrease in insurance for potential accident claims that occurred through the end of fiscal year 2017 as well as decreased advertising media. These decreases were partially offset by increased expenses in 2017 related to training, utilities and other miscellaneous expenses compared to 2016.

The 0.9% decrease in depreciation expense is primarily related to the sale of the Clement Landport resulting in less depreciation being recorded during fiscal year 2017.

Elderly and Disabled expense increased 8.7% in 2017 primarily as a result of increased operator labor expenses for paratransit services as we expand our in-house service and increased overflow taxi service expenses in order to address a 3.8% increase in Access Ride ridership compared to fiscal year 2016.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Capital Assets

Fiscal year 2018 as compared to fiscal year 2017:

At the end of fiscal year 2018, MTA had invested approximately \$131.4 million in a broad range of land, buildings, shelters and benches, revenue vehicles, equipment and ongoing projects as shown in Table A-7.

Table A-7
Metropolitan Transit Authority's Capital Assets
(in thousands of dollars)

| | 2018 | 2017 | Percentage Change 2018-2017 |
|---------------------------------|-------------------|-------------------|--|
| Land | \$ 14,733 | \$ 14,733 | - |
| Buildings, shelters and benches | 96,496 | 93,879 | 2.8% |
| Revenue vehicles | 103,864 | 98,770 | 5.2% |
| Equipment and parts | 10,649 | 10,540 | 1.0% |
| Work in progress | 14,592 | 8,540 | 70.9% |
| Office furniture and equipment | 4,817 | 4,099 | 17.5% |
| Miscellaneous other | 15,782 | 11,982 | 31.7% |
| Subtotal | 260,933 | 242,543 | 7.6% |
| Less accumulated depreciation | (129,492) | (115,815) | 11.8% |
| Net capital assets | \$ 131,441 | \$ 126,728 | 3.7% |

The increases in net capital assets were primarily related to projects from fiscal year 2017 work-in-progress (WIP) that were still in progress at June 30, 2018. Some of the WIP projects included transit signal priority upgrades along the Murfreesboro Road corridor, consulting, vendor award and preliminary design services for a new fare collection system and facility improvements at all MTA properties. Other additions included 8 replacement buses, the completion of a new charging station near Rosa Parks Boulevard for our electric buses, installation of new shelters along the Charlotte Avenue corridor as well as replacement computer equipment for items that had reached their useful life.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Fiscal year 2017 as compared to fiscal year 2016:

At the end of fiscal year 2017, MTA had invested approximately \$126.7 million in a broad range of land, buildings, shelters and benches, revenue vehicles, equipment and ongoing projects as shown in Table A-8.

Table A-8
Metropolitan Transit Authority's Capital Assets
(in thousands of dollars)

| | 2017 | 2016 | Percentage Change 2017-2016 |
|---------------------------------|-------------------|-------------------|--|
| Land | \$ 14,733 | \$ 15,155 | (2.8%) |
| Buildings, shelters and benches | 93,879 | 98,162 | (4.4%) |
| Revenue vehicles | 98,770 | 97,821 | 1.0% |
| Equipment and parts | 10,540 | 10,317 | 2.2% |
| Work in progress | 8,540 | 4,006 | 113.2% |
| Office furniture and equipment | 4,099 | 3,806 | 7.7% |
| Miscellaneous other | 11,982 | 11,848 | 1.1% |
| Subtotal | 242,543 | 241,115 | 0.6% |
| Less accumulated depreciation | (115,815) | (104,212) | 11.1% |
| Net capital assets | \$ 126,728 | \$ 136,903 | (7.4%) |

The decreases in net capital assets were primarily due to depreciation exceeding the amount of capital additions in 2017 as well as the sale of the Clement Landport. The majority of the additions in property and equipment in 2017 were related to projects that were still in progress at June 30, 2017. Some of the projects included a new charging station near Rosa Parks Boulevard for our electric buses, transit signal priority upgrades along the Murfreesboro Road corridor, analysis and consulting services for a new fare collection system, facility assessments for improvements to all MTA properties as well as some equipment in our maintenance department and additional bus shelters.

Economic Factors and Next Year's Budget

MTA's Board of Directors and management considered many factors when setting the fiscal year 2019 budget. These factors included changes in costs for existing core services to be adjusted based upon the results of our comprehensive operational analysis, short-term initiatives resulting from recommendations out of our nMotion Plan including continued elimination of payment penalties for transfers, the impact on advertising revenue as it relates to the implementation of our new WeGo branding initiative, improvements in access ride paratransit services and implementation of a new mobility on demand concept to better integrate customer needs with appropriate, efficient transit services. Also considered were anticipated capital grant funding for bus and van replacements, repainting of existing buses and vans to match our new WeGo branding initiative and any facility maintenance or rehab needed at our Nestor Street, Myatt Drive and WeGo Central facilities. This will help reduce Nashville MTA exposure to potential asset impairment and will improve operating efficiencies and help reduce maintenance costs for the year and future years.

**METROPOLITAN TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) - Continued**

Contacting MTA's Financial Management

This financial report is designed to provide our patrons, granting agencies and other interested parties with a general overview of MTA's finances and to demonstrate MTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Metropolitan Transit Authority's Finance Department, 430 Myatt Drive, Nashville, TN 37115.

METROPOLITAN TRANSIT AUTHORITY
STATEMENTS OF NET POSITION

| | June 30, | |
|--|----------------|--------------------|
| | 2018 | 2017 (restated) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,518,908 | \$ 2,354,719 |
| Receivables from federal, state and local governments | 5,742,564 | 5,628,296 |
| Accounts receivable, less allowances of \$6,000 in both years | 1,244,568 | 1,644,529 |
| Materials and supplies, net | 2,698,423 | 3,096,647 |
| Prepaid expenses and other current assets | 742,554 | 754,835 |
| Total current assets | 15,947,017 | 13,479,026 |
| Restricted funds: | | |
| Cash and cash equivalents | 8,688,229 | 13,314,028 |
| Property and equipment, net | 131,440,727 | 126,727,575 |
| Other assets: | | |
| Designated assets - cash and investments held by custodians for self-insurance | 350,000 | 350,000 |
| Total assets | 156,425,973 | 153,870,629 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Effective portion of fuel hedge program | 714,440 | 223,197 |
| Pensions | 5,590,147 | 6,412,991 |
| Total deferred outflows of resources | 6,304,587 | 6,636,188 |
| Total assets and deferred outflows of resources | \$ 162,730,560 | \$ 160,506,817 |

| | June 30, | |
|--|-----------------------|-----------------------|
| | 2018 | 2017 (restated) |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,398,421 | \$ 3,277,700 |
| Notes payable | 4,000,000 | 2,850,000 |
| Accrued expenses: | | |
| Salaries, wages and payroll taxes | 901,188 | 763,828 |
| Accident losses | 995,142 | 1,127,687 |
| Compensated absences | 1,261,849 | 1,286,553 |
| Medical benefit claims | 1,082,291 | 1,294,792 |
| Workers' compensation | 1,858,506 | 1,292,216 |
| Other current liabilities | 1,117,141 | 593,650 |
| | <u>17,614,538</u> | <u>12,486,426</u> |
| Non-current liabilities: | | |
| Advance lease receipts | 8,557,462 | 9,147,465 |
| Refundable grants | 1,131,959 | 5,185,951 |
| Net pension liability | 15,207,913 | 16,972,784 |
| Net other postemployment benefits obligation | 62,759,296 | 58,752,177 |
| | <u>87,656,630</u> | <u>90,058,377</u> |
| | <u>105,271,168</u> | <u>102,544,803</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pensions | 1,306,801 | 1,262,057 |
| | <u>1,306,801</u> | <u>1,262,057</u> |
| NET POSITION | | |
| Net investment in capital assets | 119,045,132 | 117,007,697 |
| Restricted for capital purchases | 7,406,806 | 8,128,077 |
| Unrestricted | (70,299,347) | (68,435,817) |
| | <u>56,152,591</u> | <u>56,699,957</u> |
| | <u>56,152,591</u> | <u>56,699,957</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 162,730,560</u> | <u>\$ 160,506,817</u> |

See accompanying notes to financial statements.

METROPOLITAN TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | Year Ended June 30, | |
|---|---------------------|--------------------|
| | 2018 | 2017 (restated) |
| OPERATING REVENUES | | |
| Passenger fares | \$ 7,199,132 | \$ 9,248,919 |
| Contract revenues | 2,565,142 | 2,497,151 |
| Elderly and disabled passengers | 852,456 | 858,159 |
| Advertising | 1,066,245 | 1,007,651 |
| Total operating revenues | 11,682,975 | 13,611,880 |
| OPERATING EXPENSES | | |
| Bus: | | |
| Labor and fringe benefits | 56,573,606 | 56,576,984 |
| Purchased services | 5,090,702 | 4,559,472 |
| Materials and supplies | 10,884,330 | 9,132,725 |
| Other | 3,999,567 | 3,647,315 |
| Elderly and disabled passengers | 8,945,311 | 8,857,629 |
| Planning | 209,085 | 216,614 |
| Depreciation | 15,720,799 | 16,011,289 |
| Total operating expenses | 101,423,400 | 99,002,028 |
| Operating loss | (89,740,425) | (85,390,148) |
| NON-OPERATING REVENUES (EXPENSE) | | |
| Operating assistance: | | |
| Local | 48,635,900 | 42,013,600 |
| State | 4,723,500 | 4,653,700 |
| Planning and other assistance | 4,427,750 | 3,594,020 |
| Sub-recipient pass-through | (1,197,274) | (1,143,407) |
| Loss (gain) on disposal of property and equipment | (24,180) | 6,517,430 |
| Interest expense, net | (61,101) | (35,245) |
| Other | 1,726,391 | 1,705,835 |
| Total non-operating revenues | 58,230,986 | 57,305,933 |
| DECREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS | (31,509,439) | (28,084,215) |
| CAPITAL CONTRIBUTIONS | 30,962,073 | 19,058,833 |
| CHANGE IN NET POSITION | (547,366) | (9,025,382) |
| NET POSITION AT BEGINNING OF YEAR | 56,699,957 | 65,725,339 |
| NET POSITION AT END OF YEAR | \$ 56,152,591 | \$ 56,699,957 |

See accompanying notes to financial statements.

METROPOLITAN TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS

| | Year Ended June 30, | |
|---|---------------------|---------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 12,082,936 | \$ 13,171,496 |
| Cash payments to or on behalf of employees | (52,997,323) | (49,098,333) |
| Cash payments to suppliers | (28,963,789) | (26,196,538) |
| Net cash used in operating activities | (69,878,176) | (62,123,375) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Planning assistance and other grant collections | 5,569,550 | 3,882,256 |
| State operating grant collections | 4,723,500 | 4,653,700 |
| Local operating grant collections | 48,635,900 | 42,013,600 |
| Net borrowings (repayments) on revolving credit lines | 1,150,000 | (162,973) |
| Interest payments | (70,025) | (36,239) |
| Payments to sub-recipients | (1,197,274) | (1,143,407) |
| Net cash provided by non-capital financing activities | 58,811,651 | 49,206,937 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from disposal of property and equipment | 5,712 | 7,560,201 |
| Payment of accounts payable for property and equipment | (572,413) | (1,002,297) |
| Cash purchases of property and equipment | (16,625,168) | (6,306,115) |
| Capital contributions and other capital related collections | 29,706,005 | 17,685,478 |
| Refundable grants | (4,053,992) | 1,435,720 |
| Net borrowings (repayments) on revolving credit lines | - | (1,487,027) |
| Net cash provided by capital and related financing activities | 8,460,144 | 17,885,960 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and other income collected | 1,144,771 | 1,116,825 |
| Net cash provided by investing activities | 1,144,771 | 1,116,825 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,461,610) | 6,086,347 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 15,668,747 | 9,582,400 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 14,207,137 | \$ 15,668,747 |

See accompanying notes to financial statements.

METROPOLITAN TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS - Continued

| | Year Ended June 30, | |
|--|------------------------|------------------------|
| | 2018 | 2017 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Operating loss | \$ (89,740,425) | \$ (85,390,148) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 15,720,799 | 16,011,289 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable, net | 399,961 | (440,384) |
| Materials and supplies, net | 398,224 | (539,322) |
| Prepaid expenses and other | 12,281 | (20,565) |
| Increase (decrease) in: | | |
| Accounts payable | (145,000) | 824,200 |
| Accrued salaries, wages, and payroll taxes | 137,360 | 140,183 |
| Accrued accident losses | (132,545) | (133,148) |
| Accrued compensated absences | (24,704) | 92,382 |
| Accrued medical benefit claims | (212,501) | 309,019 |
| Accrued workers compensation | 566,290 | 79,681 |
| Accrued other liabilities | 32,248 | 86,052 |
| Net other postemployment benefits obligation | 4,007,119 | 5,761,741 |
| Net pension liability and related amounts | (897,283) | 1,095,645 |
| Net cash used in operating activities | <u>\$ (69,878,176)</u> | <u>\$ (62,123,375)</u> |
| NON-CASH FINANCING AND INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | \$ 2,046,304 | \$ 6,878,528 |
| Amounts included in accounts payable at year end | (3,838,136) | (572,413) |
| Total cash paid for property and equipment | <u>\$ (1,791,832)</u> | <u>\$ 6,306,115</u> |

The estimated fair value of fuel hedges were \$714,440 and \$223,197 at June 30, 2018 and 2017, respectively. The changes in the fair values of the fuel hedges of (\$491,243) for 2018, and (\$747,171) for 2017, are included in deferred outflows / inflows of resources.

See accompanying notes to financial statements.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The accompanying financial statements encompass the financial activities of the Metropolitan Transit Authority (“MTA”), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (“Metropolitan Government”). MTA is governed by a Board of Directors, which is appointed by the Mayor of the Metropolitan Government and approved by the Metropolitan Council. The Metropolitan Government is financially accountable for MTA in that the Metropolitan Government provides significant financial support to MTA. MTA is also financially assisted by the U.S. Department of Transportation, Federal Transit Administration (“FTA”), and the Tennessee Department of Transportation (“TDOT”).

Services Rendered by Davidson Transit Organization

The financial statements include the accounts and operations of a blended component unit, Davidson Transit Organization (“DTO”), a section 501(c)(3) not-for-profit organization. Although it is legally separate from MTA, DTO was formed for the purpose of providing all the necessary labor for the operation of MTA’s transit system. DTO is financially dependent on MTA and is reimbursed by MTA, at cost, for all salaries, wages and fringe benefits. Additionally, MTA appoints the Board of Directors of DTO and MTA’s management has operational responsibility for DTO. DTO has no operations outside of MTA. Accordingly, DTO is a blended component unit for financial reporting purposes. All significant interagency transactions and balances have been eliminated. No separate financial statements are issued for DTO (See Note O).

Measurement Focus and Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates in the Preparation of Financial Statements

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the useful lives and valuation of property and equipment, the valuation of accounts receivable and materials and supplies, pension and other postemployment benefit liabilities, and self-insurance accruals. Actual results could differ from those estimates.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating and Non-Operating Revenues and Expenses

MTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. The principal operating revenues of MTA include passenger fares, revenues from contracted services, and advertising. Operating expenses include the cost of services, administrative expenses, and depreciation on property and equipment assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Significant non-operating revenues relate primarily to operating assistance grants from state and local sources.

Cash Balances and Statements of Cash Flows

For purposes of the statements of cash flows, MTA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Materials and Supplies

Materials and supplies consist primarily of vehicle parts and are stated at cost as determined on the average cost method. At June 30, 2018 and 2017, a valuation allowance of \$54,025 and \$96,837, respectively, was deemed necessary.

Property and Equipment and Depreciation

Property and equipment is stated at cost, except for contributions of property received from governmental agencies, which is recorded at fair value at the time of contribution. Capitalized cost of property and equipment includes improvements that significantly add to utility or extend useful lives. MTA maintains an Asset Management Policy, which generally classifies capital assets as tangible items with a purchase price of \$1,000 or more. Costs of maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line method to allocate the cost of the assets over their estimated economic lives (see Note D).

Impairment of Long-Lived Assets

The carrying value of long-lived assets held and used are reviewed whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For purpose of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows before consideration of interest expense. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The evaluation of asset impairment requires MTA to make assumptions about future cash flows over the life of the asset being evaluated. Assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated. No impairment losses were recorded in fiscal years 2018 or 2017.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Accumulated unpaid vacation is accrued when earned on a calendar year basis. Employees earn ten or more days of vacation each year depending on length of service. Unused vacation time may not be carried forward after the end of the calendar year.

In December each year, an employee who has been employed for the entire previous twelve-month period and has accumulated sick leave is entitled to a cash payment for a portion of his or her accumulated sick leave balance. The employee may request a lump sum payment for a maximum of six days, to be paid at 80% of his or her regular hourly rate.

Sick leave is paid on the basis of straight-time and may not be used to compute overtime pay. Except for retirement, there is no compensation for accrued sick leave when an employee's service is terminated. In the case of retirement, MTA purchases one-half of the retiree's accrued sick leave at the rate of 100% of wages, or the employee may opt for no pay and full credit for pension purposes. The maximum allowable number of days accruable for this benefit is 164.

Self-insurance

MTA is primarily self-insured, up to certain limits, for automobile and general liability, workers' compensation, and employee group health insurance claims. MTA has purchased reinsurance in order to limit its exposure. The reinsurance limits are described in Note F. Operations are charged with the cost of claims reported and an estimate of claims incurred but not reported. Liabilities for unpaid workers' compensation and employee group health insurance claims, including incurred but not reported losses, are actuarially determined and reflected in the accompanying statements of net position as accrued liabilities. Self-insurance losses for automobile and general liabilities are accrued based on MTA's consultation with its risk management service provider and attorneys. The determination of self-insurance claims and expenses, and the appropriateness of the related liability, are continually reviewed and updated by management. Self-insurance claims are described further in Note F.

Operating Assistance Grants

Revenue from government operating assistance grants is recognized as non-operating revenue in the period to which the grant applies.

Capital Contributions

Capital contributions are not recognized until the period a liability for the related expenditure is incurred, at which time such amounts are recognized in the statements of revenues, expenses and changes in net position as a separate line item after non-operating revenues and expenses.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

Restricted assets consist of cash and cash equivalents which are restricted for specific purposes under grant agreements or as otherwise approved by federal agencies.

When restricted and unrestricted resources are available for use, it is MTA's policy to use restricted resources first, then use unrestricted resources as needed.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

MTA reports deferred outflows or deferred inflows relating to its hedge program. MTA's fuel hedges are considered to be derivatives, the effective portion of which is accounted for as deferred inflows/deferred outflows of resources at June 30, 2018 and 2017.

At June 30, 2018 and 2017, MTA also reports deferred outflows of resources relating to pension contributions made after the measurement date as well as deferred outflows and inflows of resources relating to differences between actual and expected experience, differences between actual and projected investment earnings related to the pension plan and, when applicable, changes in assumptions used in the actuarial valuations (See Note J).

Unearned Revenues and Refundable Grants

MTA's unearned revenues represent lease rentals, received in advance, for certain leases entered into with the State of Tennessee and the Metropolitan Government. The unearned rental income is being recognized in nonoperating income on a straight-line basis over the terms of the related agreements. Unearned revenues for advance lease receipts are included within liabilities in the accompanying statements of net position as such amounts may be returned to the counterparty if the related agreements were to be terminated.

Amounts received from grants in advance of meeting certain eligibility requirements are recorded within liabilities as refundable grants until the eligibility requirements are met (See Note E).

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Postemployment Benefits

Postemployment pension benefits are accounted for under Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27*, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, note disclosures, and required supplementary information.

For purposes of measuring the 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 pension plan and additions to/deductions from pension plan’s fiduciary net position have been determined on the same basis as they are reported by pension plan. 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.

Application of New Accounting Pronouncement and Restatement of Net Position

MTA implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“OPEB”)*. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The beginning net position as June 30, 2017, was reduced by \$15,816,030. Additionally, the June 30, 2017, balance in net other postemployment benefits obligation was increased by \$15,816,030. June 30, 2017 balances for deferred inflows and outflows of resources were not restated, as it was not practical to obtain the information.

Net Position

MTA’s net position classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component consists of net position restricted by grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted - This component consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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B. CASH AND CASH EQUIVALENTS

MTA’s deposit policy is governed by the laws of the State of Tennessee. Deposits in financial institutions are required by State statute to be secured and collateralized by such institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount covered by federal depository insurance. MTA’s financial institutions participate in the State of Tennessee Bank Collateral Pool. Banks participating in the Collateral Pool determine the aggregate balance of their public fund accounts and the required collateral for MTA.

The amount of collateral required to secure these public deposits must be equal to 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

During fiscal years 2018 and 2017, MTA’s deposit balances were fully collateralized by the State of Tennessee Bank Collateral Pool. At June 30, 2018 and 2017, the carrying amount and corresponding bank balances of deposits were as follows:

| | | |
|--|------------------------------|--------------------------------------|
| <u>2018:</u> | <u>Deposits Per Bank</u> | <u>Carrying Amount Per Books</u> |
| Cash and cash equivalents, including restricted amounts | \$15,063,134 | \$14,207,137 |
| <u>2017:</u> | <u>Deposits Per Bank</u> | <u>Carrying Amount Per Books</u> |
| Cash and cash equivalents, including restricted amounts | \$16,913,534 | \$15,668,747 |

The difference between the deposits per bank and the carrying amount of cash per the books is due primarily to checks outstanding at June 30, 2018 and 2017.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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C. RECEIVABLES FROM OTHER GOVERNMENTS

Receivables from federal, state and local governments consist of the following as of June 30:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|--------------------|--------------------|
| Non-capital related grants: | | |
| FTA | \$ 367,095 | \$1,442,522 |
| TDOT | 390,547 | 525,129 |
| Metropolitan Government | 79,685 | 11,476 |
| Capital related grants: | | |
| FTA | 2,416,796 | 958,870 |
| TDOT | 1,611,652 | 1,498,078 |
| Metropolitan Government | <u>876,789</u> | <u>1,192,221</u> |
| | <u>\$5,742,564</u> | <u>\$5,628,296</u> |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. PROPERTY AND EQUIPMENT

A summary of the changes in property and equipment and related accumulated depreciation for the year ended June 30, 2018, is as follows:

| | <u>Estimated Economic Lives In Years</u> | <u>Balance at June 30, 2017</u> | <u>Additions</u> |
|-----------------------------------|--|-------------------------------------|---------------------|
| Property and equipment: | | | |
| Motor buses | 10 - 12 | \$ 90,973,728 | \$ 7,079,384 |
| Electric buses | 12 | 7,796,089 | - |
| Spare parts | 5 | 327,123 | - |
| Fare equipment | 10 - 20 | 6,856,479 | 23,200 |
| Service cars | 3 - 10 | 1,380,634 | 11,819 |
| Shop and garage equipment | 10 | 1,975,472 | 159,645 |
| Furniture and office equipment | 10 | 899,499 | - |
| Computer equipment | 5 - 10 | 3,199,221 | 718,308 |
| Miscellaneous equipment | 10 | 11,982,034 | 756,316 |
| Shelters and benches | 10 - 20 | 7,537,524 | 93,224 |
| Buildings | 10 - 40 | 38,982,413 | 419,353 |
| Music City Central | 7 - 30 | 47,358,879 | 346,327 |
| Land | - | 14,733,025 | - |
| Construction in-progress (Note L) | - | <u>8,540,355</u> | <u>10,855,728</u> |
| | | <u>242,542,475</u> | <u>20,463,304</u> |
| Accumulated depreciation: | | | |
| Motor buses | | 56,119,360 | 6,489,171 |
| Electric buses | | 1,028,651 | 649,674 |
| Spare parts | | 319,028 | 2,775 |
| Fare equipment | | 4,784,098 | 402,237 |
| Service cars | | 1,173,976 | 97,559 |
| Shop and garage equipment | | 981,335 | 225,047 |
| Furniture and office equipment | | 665,619 | 98,658 |
| Computer equipment | | 2,688,648 | 281,463 |
| Miscellaneous equipment | | 4,997,206 | 1,808,296 |
| Shelters and benches | | 4,887,196 | 794,540 |
| Buildings | | 23,975,240 | 3,221,608 |
| Music City Central | | 14,194,543 | 1,649,771 |
| Land | | - | - |
| Construction in-progress | | <u>-</u> | <u>-</u> |
| | | <u>115,814,900</u> | <u>15,720,799</u> |
| Property and equipment, net | | <u>\$126,727,575</u> | <u>\$ 4,742,505</u> |

| <u>Disposals</u> | <u>Reclassifications</u> | <u>Balance at June 30, 2018</u> |
|---------------------|--------------------------|-------------------------------------|
| \$ (1,985,027) | \$ - | \$ 96,068,085 |
| - | - | 7,796,089 |
| - | - | 327,123 |
| - | - | 6,879,679 |
| - | - | 1,392,453 |
| - | - | 2,135,117 |
| - | - | 899,499 |
| (85,456) | - | 3,832,073 |
| (967) | 3,044,734 | 15,782,117 |
| - | 1,759,674 | 9,390,422 |
| - | - | 39,401,766 |
| (1,288) | - | 47,703,918 |
| - | - | 14,733,025 |
| - | <u>(4,804,408)</u> | <u>14,591,675</u> |
| <u>(2,072,738)</u> | <u>-</u> | <u>260,933,041</u> |
| | | |
| (1,957,037) | - | 60,651,494 |
| - | - | 1,678,325 |
| - | - | 321,803 |
| - | - | 5,186,335 |
| - | - | 1,271,535 |
| - | - | 1,206,382 |
| - | - | 764,277 |
| (85,456) | - | 2,884,655 |
| (853) | - | 6,804,649 |
| - | - | 5,681,736 |
| - | - | 27,196,848 |
| (39) | - | 15,844,275 |
| - | - | - |
| - | - | - |
| <u>(2,043,385)</u> | <u>-</u> | <u>129,492,314</u> |
| | | |
| <u>\$ (29,353)</u> | <u>\$ -</u> | <u>\$131,440,727</u> |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. PROPERTY AND EQUIPMENT - Continued

A summary of the changes in property and equipment and related accumulated depreciation for the year ended June 30, 2017, is as follows:

| | <u>Estimated Economic Lives In Years</u> | <u>Balance at June 30, 2016</u> | <u>Additions</u> |
|-----------------------------------|--|-------------------------------------|-----------------------|
| Property and equipment: | | | |
| Motor buses | 10 - 12 | \$ 90,024,974 | \$ 945,615 |
| Electric buses | 12 | 7,796,089 | - |
| Spare parts | 5 | 318,797 | 8,326 |
| Fare equipment | 10 - 20 | 6,792,578 | 63,901 |
| Service cars | 3 - 10 | 1,301,176 | 89,408 |
| Shop and garage equipment | 10 | 1,904,527 | 70,945 |
| Furniture and office equipment | 10 | 881,547 | 24,249 |
| Computer equipment | 5 - 10 | 2,924,352 | 274,869 |
| Miscellaneous equipment | 10 | 11,847,382 | 134,652 |
| Shelters and benches | 10 - 20 | 7,293,218 | 171,106 |
| Buildings | 10 - 40 | 38,765,128 | 214,385 |
| Music City Central | 7 - 30 | 47,091,515 | 227,939 |
| Landport | 20 | 5,012,325 | - |
| Land | - | 15,155,266 | - |
| Construction in-progress (Note L) | - | 4,005,886 | 4,653,133 |
| | | <u>241,114,760</u> | <u>6,878,528</u> |
| Accumulated depreciation: | | | |
| Motor buses | | 49,314,615 | 6,804,745 |
| Electric buses | | 378,977 | 649,674 |
| Spare parts | | 309,947 | 9,081 |
| Fare equipment | | 4,338,503 | 445,595 |
| Service cars | | 1,030,076 | 153,850 |
| Shop and garage equipment | | 760,457 | 220,878 |
| Furniture and office equipment | | 571,131 | 97,783 |
| Computer equipment | | 2,388,569 | 300,079 |
| Miscellaneous equipment | | 3,406,761 | 1,590,445 |
| Shelters and benches | | 4,109,871 | 777,325 |
| Buildings | | 20,764,905 | 3,210,335 |
| Music City Central | | 12,559,969 | 1,634,574 |
| Landport | | 4,277,872 | 116,925 |
| Land | | - | - |
| Construction in-progress | | - | - |
| | | <u>104,211,653</u> | <u>16,011,289</u> |
| Property and equipment, net | | <u>\$136,903,107</u> | <u>\$(9,132,761)</u> |

| <u>Disposals</u> | <u>Reclassifications</u> | <u>Balance at June 30, 2017</u> |
|----------------------|--------------------------|-------------------------------------|
| \$ - | \$ 3,139 | \$ 90,973,728 |
| - | - | 7,796,089 |
| - | - | 327,123 |
| - | - | 6,856,479 |
| (9,950) | - | 1,380,634 |
| - | - | 1,975,472 |
| (6,297) | - | 899,499 |
| - | - | 3,199,221 |
| - | - | 11,982,034 |
| - | 73,200 | 7,537,524 |
| - | 2,900 | 38,982,413 |
| - | 39,425 | 47,358,879 |
| (5,012,325) | - | - |
| (422,241) | - | 14,733,025 |
| - | (118,664) | 8,540,355 |
| <u>(5,450,813)</u> | <u>-</u> | <u>242,542,475</u> |
| - | - | 56,119,360 |
| - | - | 1,028,651 |
| - | - | 319,028 |
| - | - | 4,784,098 |
| (9,950) | - | 1,173,976 |
| - | - | 981,335 |
| (3,295) | - | 665,619 |
| - | - | 2,688,648 |
| - | - | 4,997,206 |
| - | - | 4,887,196 |
| - | - | 23,975,240 |
| - | - | 14,194,543 |
| (4,394,797) | - | - |
| - | - | - |
| - | - | - |
| <u>(4,408,042)</u> | <u>-</u> | <u>115,814,900</u> |
| <u>\$(1,042,771)</u> | <u>\$ -</u> | <u>\$126,727,575</u> |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

D. PROPERTY AND EQUIPMENT - Continued

Construction in progress at June 30, 2018, is attributable to the following (See Note L):

| | |
|------------------------------------|-------------------------|
| Signal priority project | \$ 7,306,940 |
| Strategic master plan | 314,270 |
| BRT lines | 303,905 |
| MCC Property | 1,982,910 |
| Building and facilities | 2,219,410 |
| Fare technology upgrades | 1,377,759 |
| Other projects | <u>1,086,481</u> |
| Total construction in progress | <u>\$14,591,675</u> |

During fiscal year 2018, the following projects were substantially completed and were transferred to capital assets:

| | |
|--------------------------------------|--------------------|
| Electric buses and charging stations | \$1,849,656 |
| BRT line | 1,212,334 |
| Other projects | <u>1,742,418</u> |
| | <u>\$4,804,408</u> |

Construction in progress at June 30, 2017, is attributable to the following:

| | |
|------------------------------------|------------------------|
| Signal priority project | \$1,721,074 |
| Strategic master plan | 812,173 |
| BRT lines | 1,308,089 |
| MCC Property | 1,849,655 |
| Building and facilities | 975,203 |
| Fare technology upgrades | 524,080 |
| Other projects | <u>1,350,081</u> |
| Total construction in progress | <u>\$8,540,355</u> |

During fiscal year 2017, projects totaling \$118,664 were substantially completed and were transferred to capital assets.

During August 2016, the Board of Directors approved the sale of the Clement Landport to the Metropolitan Government. The agreement was approved by the Metropolitan Council in October 2016. The sale was approved by the Federal Transit Administration and was finalized in December 2016. Proceeds from the sale totaled \$7,560,000, resulting in a gain on sale of the property of \$6,520,231. Proceeds from the sale were to be used in accordance with FTA guidelines, and therefore were classified as restricted assets at June 30, 2018 (See Note M).

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

E. CAPITAL CONTRIBUTIONS AND REFUNDABLE GRANTS

Capital contributions consist of property, materials and supplies purchased with federal, state and local government capital grants. Unexpended available capital contribution awards totaled approximately \$67,000,000 as of June 30, 2018. These grant revenue amounts will be recognized in the financial statements when grant funds are utilized in accordance with the grant agreements.

During fiscal year 2014, MTA received \$3,642,082 from the Federal Emergency Management Agency (FEMA) and the Tennessee Emergency Management Agency (TEMA) for potential claims relating to the May 2010 historic flood experienced in Nashville. The flood was declared a federal disaster by President Obama. MTA experienced losses to assets and equipment, including damage to the Nestor Street facility, buses, other vehicles, and materials and supplies. Since the flood, MTA has worked with the FTA and FEMA to obtain funds for asset replacements. FEMA has advanced funds, subject to review and determination of certain reimbursements previously received by FTA. Accordingly, the advanced funds have been recorded as refundable grants in the statement of net position until final settlement with FEMA is made.

During fiscal year 2015, another \$206,614 was received and \$76,929 was spent for asset replacement. During fiscal year 2016, \$21,536 was spent for asset replacement. During fiscal year 2017, \$1,536,539 was received and \$100,819 was spent for asset replacement. During fiscal year 2018, \$281,685 was received and \$4,335,677 was spent for asset replacement; accordingly, refundable grants totaled \$1,131,959 at June 30, 2018.

F. SELF-INSURANCE

Vehicle operation:

MTA is self-insured up to \$100,000 for all losses relating to the operation of any revenue vehicle. A provision of \$995,142 and \$1,127,687 has been made for all such known losses incurred as of June 30, 2018 and 2017, respectively. Accident losses exceeding \$100,000 on any revenue vehicle are covered under an insurance program subject to certain annual and aggregate limits.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

F. SELF-INSURANCE - Continued

Employee medical benefit claims:

MTA is self-insured for employee medical claims. MTA has purchased reinsurance, which provides for reimbursement of paid medical claims in excess of \$170,000 per participant per agreement year. The policy also provides certain maximums during the lifetime of a covered participant, and an aggregate maximum for total claims paid per year. The aggregate maximum each year fluctuates based on the number of employees under single or family coverage contracts. The maximum amount that the reinsurance carrier will pay out in a plan year is \$1,000,000. Total claims paid in fiscal years 2018 and 2017 did not exceed the aggregate maximum.

As required by a collective bargaining labor agreement, the Davidson Transit Organization Employee Benefit Trust (the "Trust") was established to pay all medical claims for employees. The accrued medical claims and reinsurance amounts are recorded by the Trust. MTA funds the Trust, through DTO, on a break-even basis. At June 30, 2018 and 2017, MTA owed the Trust \$1,082,291 and \$1,294,792, respectively. Such amounts are included in accrued expenses. Medical claims are paid by the Trust through a third party administrator, which was Blue Cross Blue Shield of Tennessee

Changes in the medical claims liability for the years ended June 30, 2018 and 2017 are as follows:

| | <u>Balance at Beginning of Year</u> | <u>Net Claims Expenses</u> | <u>Claim Payments</u> | <u>Balance at End of Year</u> |
|------|---|--------------------------------|---------------------------|-----------------------------------|
| 2018 | \$1,294,792 | \$13,565,391 | \$13,777,892 | \$1,082,291 |
| 2017 | 985,773 | 12,556,772 | 12,247,753 | 1,294,792 |

Workers' compensation:

MTA is self-insured, up to certain limits, for its workers' compensation claims. A provision has been made for all such known claims incurred as of June 30, 2018 and 2017. MTA has purchased reinsurance for workers compensation claims in excess of \$500,000 per employee. The maximum available for reinsurance in the contract period is \$1,000,000. During 2018 and 2017, MTA's workers' compensation claims did not exceed the maximum. At June 30, 2018 and 2017, provisions of \$1,858,506 and \$1,292,216, respectively are included in accrued expenses relating to workers' compensation claims.

Self-insurance investments:

MTA has transferred funds to a third party administrator to serve as collateral for its self-insured workers' compensation bond. The balance of these funds was \$350,000 at both June 30, 2018 and 2017.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

G. DEBT

In March 2017, MTA entered into an \$11,200,000 revolving line-of-credit with Fifth Third Bank, to replace the previously outstanding credit line. In April 2018, the revolving credit line amount was increased to \$12,400,000 with a maturity date of March 31, 2019. MTA has pledged certain assets under the line-of-credit, including all revenues, accounts receivable, investments, and machinery and equipment. The line-of-credit bears interest at one month LIBOR plus 1.75% (an effective rate of 2.04% and 2.81% at June 30, 2018 and 2017, respectively). The credit line is also subject to a 0.20% per annum line fee on any unused amount.

A summary of the borrowings and repayments under the credit line agreements for the years ended June 30, 2018 and 2017 is as follows:

2018:

| | Balance at Beginning of Year | <u>Borrowings</u> | <u>Repayments</u> | Balance at End of Year |
|------------------|------------------------------------|--------------------|----------------------|---------------------------|
| Fifth Third Bank | <u>\$2,850,000</u> | <u>\$9,020,750</u> | <u>\$(7,870,750)</u> | <u>\$4,000,000</u> |

2017:

| | Balance at Beginning of Year | <u>Borrowings</u> | <u>Repayments</u> | Balance at End of Year |
|------------------|------------------------------------|--------------------|----------------------|---------------------------|
| Fifth Third Bank | <u>\$4,500,000</u> | <u>\$6,000,000</u> | <u>\$(7,650,000)</u> | <u>\$2,850,000</u> |

METROPOLITAN TRANSIT AUTHORITY
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H. FUEL-HEDGING PROGRAM

MTA participates in the Metropolitan Government's fuel hedging program. MTA's objective is to hedge the changes in cash flows due to market price fluctuations related to a portion of expected purchases of diesel fuel. Details of MTA's participation in the fuel-hedging program for the years ended June 30, 2018 and 2017 are as follows:

| <u>Monthly Notional Amount</u> | <u>Effective Date</u> | <u>Maturity Date</u> | <u>Terms</u> | <u>Counterparty Credit Rating</u> |
|--------------------------------|-----------------------|----------------------|---|-----------------------------------|
| 50,700 gallons, diesel | 7/1/16 | 6/30/17 | Pay \$1.2025 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 33,800 gallons, diesel | 7/1/16 | 6/30/17 | Pay \$1.1950 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 33,800 gallons, diesel | 7/1/16 | 6/30/17 | Pay \$1.3695 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 9,125 gallons, gasoline | 7/1/16 | 6/30/17 | Pay \$1.50 per gallon; Settlement based on NYMEX NYH RBOB Gasoline | Baa1/BBB+ |
| 23,375 gallons, gasoline | 7/1/16 | 6/30/17 | Pay \$1.2365 per gallon; Settlement based on NYMEX NYH RBOB Gasoline | Baa1/BBB+ |
| 33,800 gallons, diesel | 7/1/17 | 6/30/18 | Pay \$1.6145 per gallon; Settlement based on HO-NYMEX - FUTURES | A1 |
| 50,700 gallons, diesel | 7/1/17 | 6/30/18 | Pay \$1.6093 per gallon; Settlement based on HO-NYMEX - FUTURES | A1 |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

H. FUEL-HEDGING PROGRAM - Continued

| | | | | |
|-----------------------------|--------|---------|---|-----------|
| 33,800 gallons, diesel | 7/1/17 | 6/30/18 | Pay \$1.7185 per gallon; Settlement based on USLD-New York Harbor -NYMEX | Baa1 |
| 18,250 gallons, gasoline | 7/1/17 | 6/30/18 | Pay \$1.5660 per gallon; Settlement based on XB-NYMEX - FUTURES | A1 |
| 9,125 gallons, gasoline | 7/1/17 | 6/30/18 | Pay \$1.5616 per gallon; Settlement based on XB-NYMEX - FUTURES | A1 |
| 9,125 gallons, gasoline | 7/1/17 | 6/30/18 | Pay \$1.6490 per gallon; Settlement based on XB-NYMEX - FUTURES | A1 |
| 84,000 gallons, diesel | 7/1/18 | 6/30/19 | Pay \$1.756 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 84,000 gallons, diesel | 7/1/18 | 6/30/19 | Pay \$1.828 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 96,825 gallons, diesel | 7/1/18 | 6/30/19 | Pay \$1.8775 per gallon; Settlement based on ULSD-New York Harbor-NYMEX | Baa1/BBB+ |
| 84,000 gallons, gasoline | 7/1/18 | 6/30/19 | Pay \$1.657 per gallon; Settlement based on NYMEX NYH RBOB Gasoline | Baa1/BBB+ |

METROPOLITAN TRANSIT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
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H. FUEL-HEDGING PROGRAM - Continued

| | | | | |
|-----------------------------|--------|---------|--|-----------|
| 42,000 gallons, gasoline | 7/1/18 | 6/30/19 | Pay \$1.718 per gallon; Settlement based on NYMEX NYH RBOB Gasoline | Baal/BBB+ |
| 38,625 gallons, gasoline | 7/1/18 | 6/30/19 | Pay \$1.76 per gallon; Settlement based on NYMEX NYH RBOB Gasoline | Baal/BBB+ |

The fair value of the fuel hedging instruments was an asset of \$714,440 and \$223,197 at June 30, 2018 and 2017, respectively. The fair value was estimated based on the present value of the estimated future cash flows. The fuel hedges were determined to be effective hedges based on regression analysis; accordingly, the change in fair value of the hedges is a corresponding outflow of resources.

MTA is exposed to credit risk on hedging derivative instruments that are in asset positions. This represents the maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted. MTA relies primarily on the credit rating of the counterparty. MTA is exposed to basis risk on its fuel hedging contracts because the expected commodity purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle (Nymex). As the fuel-hedging program is administered by the Metropolitan Government, the Metropolitan Government or its counterparts may terminate the contracts if the other party fails to perform under the terms of the contracts. If at the time of termination, a hedging derivative instrument is in a liability position, MTA, through the Metropolitan Government, would be liable to the counterparty for a payment equal to the liability.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

I. AGREEMENTS WITH THE STATE AND METROPOLITAN GOVERNMENTS

During fiscal year 2008, MTA entered into an agreement to lease certain parking facilities to the State of Tennessee. The term of the lease is approximately 25 years and commenced in October 2008. Under the provisions of the lease agreement, MTA received, in advance, the entire lease rental payments totaling \$6,500,000. The advance rental payments have been recorded as unearned revenue in the accompanying statements of net position and will be recognized as revenue over the term of the lease. MTA utilized the upfront cash payments to finance a portion of the construction costs for Music City Central. The remaining balance totaled \$3,964,962 and \$4,224,965 at June 30, 2018 and 2017, respectively.

During fiscal year 2012, MTA received \$6,600,000 from the Metropolitan Government for purchase of the Myatt Drive Facility. In connection with the contribution, the Metropolitan Government will share certain space at the facility. The Metropolitan Government took occupancy of its portion of the facility during fiscal year 2013. Accordingly, the \$6,600,000 has been recorded as unearned revenue in the accompanying statements of net position and will be amortized over the term of the agreement, which is expected to be 20 years. The remaining balance totaled \$4,592,500 and \$4,922,500 at June 30, 2018 and 2017, respectively.

J. PENSION PLAN

General Information About the Pension Plan

Plan Description

MTA offers, through DTO (the “Employer”), the Disability and Retirement Plan of Davidson Transit Organization and Local 1235 of the Amalgamated Transit Union, a single-employer defined benefit pension plan (“Pension Plan”) covering substantially all eligible employees of DTO (except part-time employees) and the Amalgamated Transit Union, Local 1235. The Pension Plan provides for retirement and disability benefits to members and their beneficiaries. Specific benefits are established in Articles XII and XIII of the Pension Plan document.

Oversight and administration of the Pension Plan is the responsibility of the Pension Administrative Committee (the “Committee”) with administrative support provided by DTO. The Committee consists of four persons; two appointed by the Union and two appointed by the Employer. This Committee has power to make and enforce such reasonable rules and regulations consistent with the provisions of the Pension Plan.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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J. PENSION PLAN

As of the most recent measurement date, June 30, 2017, the Pension Plan covered 214 retirees receiving benefits; 3 terminated vested; and 640 active participants.

The Pension Plan issues a publicly available report that includes the financial statements and certain required supplementary information. That report may be obtained by writing to MTA, 430 Myatt Drive, Madison, Tennessee, 37115, or by calling (615) 862-5969.

Benefits Provided

Upon termination of employment, for any reason, an employee with at least seven years of service is entitled to the full pension benefit accrued to the date of termination beginning at normal retirement age. Normal retirement age is the earlier of attainment of age 65, attainment of age 55 with 29 years of service, or when the sum of the employee's years of service and attained age is not less than 84. Early retirement can begin at age 55 with seven years of service and provides for reduced benefits.

Retirement benefits are calculated as 1.6% of the average monthly earnings of a member's highest five of the last eight years of salary plus one-half of any accrued sick days, multiplied by the number of years of service at retirement. The normal form of benefit is an annuity payable over the life of the participant with a guaranteed return of the participant's required contribution. Retirees receive a 1.3% cost-of-living adjustment per year, through fiscal year 2015, as contractually agreed upon in the labor union contract between the Employer and the Union. The adjustment was increased to 1.5% each year for fiscal years 2016 to 2018.

Disability retirement benefits are provided for members with total and permanent disability after seven years of service. They are payable immediately and determined in the same manner as retirement benefits but without reduction. Death benefits are also provided for by the Plan.

A participant leaving employment with the Employer prior to seven years of service shall be refunded an amount equal to 100% of their required contributions plus four percent interest compounded annually.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

Contributions

The Pension Plan is funded by monthly contributions from both DTO and plan members. Contribution requirements of the plan members and DTO are established in Article VII of the Pension Plan document. Plan members are required to contribute 4.50% of their covered payroll. DTO is required to contribute at an actuarially determined rate of payroll, which was 8.52% and 8.57%% in fiscal years 2018 and 2017, respectively. The Employer’s contributions totaled \$3,058,880 and \$2,849,136, for fiscal years 2018 and 2017, respectively which exceeded the required contribution rates in both years. The Employer’s actuarially determined contributions (“ADC”) and member contributions are expected to finance the cost of benefits earned by members, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

MTA’s net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of July 1, 2016, with rollforward procedures to the measurement date.

Actuarial Assumptions

Actuarial methods and assumptions as of July 1, 2016, based on a rollforward of the entry age normal liabilities to June 30, 2017, the measurement date, are detailed below:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar open; 20 year amortization |
| Asset valuation method | 5-Year phase-in realized and unrealized gains and losses, 29% corridor |
| Rate of investment return | 7.75% per annum, compounded annually, including inflation |
| Projected salary increases | Sliding scale based on years of service as determined from the 2016 actuarial experience study. Rates range from 10.00% to 3.25% in the first 5 years of service and are assumed at 3.25% per year thereafter. |
| Inflation | 2.5% |
| Cost of living adjustments | 1.5% through plan year 2018 |
| Remaining amortization period | 20 years |
| Normal retirement age | Various rates of retirement applied to ages 55 through 70. Rate applied to the normal retirement age of 65 is 50%. |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

| | |
|--------------------|---|
| Mortality rates | Healthy mortality: RP-2014 base mortality table with blue collar adjustments and generational future mortality improvements based on the Conduent Modified MP-2015 improvement scale. |
| Disabled mortality | RP-2014 Disabled Retiree Mortality with generational future mortality improvements based on the Conduent Modified MP-2015 improvement scale. |

Investment Policy and Rate of Return

The Committee is responsible for oversight of the Plan’s investments and has adopted investment policy and performance standards. The primary investment objective of the Plan is to achieve long-term returns while preserving principal after inflation and minimize risk. Actual investing is performed by an investment manager hired by the Committee. The Committee has developed investment guidelines and objectives for the investment manager to adhere to when managing investments which include the following asset allocation guidelines:

| <u>Assets Class</u> | <u>Long-Term Target Allocation</u> |
|--|--|
| Total equities: | 45% |
| Domestic large cap equities (30%) | |
| Domestic mid cap equities (5%) | |
| Domestic small cap equities (5%) | |
| International large cap equities (5%) | |
| Domestic investment-grade fixed income | 35% |
| Alternative investments | <u>20%</u> |
| Total | <u>100%</u> |

(no single investment larger than 10%)

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a simulation of capital market 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. Best estimates of the arithmetic real rates of return for each major asset class included in the Pension Plan's target asset allocation (as discussed in the Pension Plan's investment policy) are summarized in the following table:

| Assets Class | Long-Term Expected Real Rate of Return |
|--|---|
| Total equities: | |
| Domestic large cap equities | 8.52% |
| Domestic mid cap equities | 10.55% |
| Domestic small cap equities | 10.66% |
| International large cap equities | 7.69% |
| Domestic investment-grade fixed income | 1.87% |
| Alternative investments | 4.72% |

Discount Rate

As of the measurement date, June 30, 2017, the single blended discount rate used to measure the total pension liability was changed from 7.63% to 7.68%. The projection of cash flows used to determine the discount rate assumed that the Plan's contributions will continue to follow the current funding policy.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

Changes in the Net Pension Liability

| | Total Pension <u>Liability</u> | Increase (Decrease) Plan Fiduciary <u>Net Position</u> | Net Pension <u>Liability</u> |
|--|-----------------------------------|--|---------------------------------|
| Balance at June 30, 2016 (June 30, 2015 measurement date) | <u>\$ 53,226,139</u> | <u>\$ 38,729,574</u> | <u>\$ 14,496,565</u> |
| Changes for the year: | | | |
| Service cost | 2,274,196 | - | 2,274,196 |
| Interest | 4,161,680 | - | 4,161,680 |
| Change in benefit terms | 1,741,746 | - | 1,741,746 |
| Differences between expected and actual experience | 996,205 | - | 996,205 |
| Change of assumptions | (1,483,471) | - | (1,483,471) |
| Contributions-employer | - | 2,979,190 | (2,979,190) |
| Contributions-employees | - | 1,440,038 | (1,440,038) |
| Net investment income | - | 968,227 | (968,227) |
| Benefit payments, including refunds of employee contributions | (3,670,960) | (3,670,960) | - |
| Administrative expense | - | (173,318) | 173,318 |
| Net changes | <u>4,019,396</u> | <u>1,543,177</u> | <u>2,476,219</u> |
| Balance at June 30, 2017 (June 30, 2016 measurement date) | <u>\$ 57,245,535</u> | <u>\$ 40,272,751</u> | <u>\$ 16,972,784</u> |
| Changes for the year: | | | |
| Service cost | 2,300,483 | - | 2,300,483 |
| Interest | 4,403,968 | - | 4,403,968 |
| Differences between expected and actual experience | 235,342 | - | 235,342 |
| Change of assumptions | (311,269) | - | (311,269) |
| Contributions-employer | - | 2,643,077 | (2,643,077) |
| Contributions-employees | - | 1,610,224 | (1,610,224) |
| Net investment income | - | 4,340,908 | (4,340,908) |
| Benefit payments, including refunds of employee contributions | (3,722,226) | (3,722,226) | - |
| Administrative expense | - | (200,814) | 200,814 |
| Net changes | <u>2,906,298</u> | <u>4,671,169</u> | <u>(1,764,871)</u> |
| Balance at June 30, 2018 (June 30, 2017 measurement date) | <u>\$ 60,151,833</u> | <u>\$ 44,943,920</u> | <u>\$ 15,207,913</u> |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability as of June 30, 2018 and 2017, calculated using the applicable discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | | | |
|-----------------------|----------------------------------|--|----------------------------------|
| <u>June 30, 2018:</u> | 1% Decrease <u>(6.68%)</u> | Current Discount Rate <u>(7.68%)</u> | 1% Increase <u>(8.68%)</u> |
| Net pension liability | <u>\$21,989,281</u> | <u>\$15,207,913</u> | <u>\$9,460,164</u> |
| <u>June 30, 2017:</u> | 1% Decrease <u>(6.63%)</u> | Current Discount Rate <u>(7.63%)</u> | 1% Increase <u>(8.63%)</u> |
| Net pension liability | <u>\$23,349,507</u> | <u>\$16,972,784</u> | <u>\$11,564,420</u> |

Pension Plan Fiduciary Net Position

Detailed information about the Pension Plan's fiduciary net position is available in the separately issued plan financial statements. No significant changes have occurred since the measurement date.

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

Pension expense

For the years ended June 30, 2018 and 2017, MTA recognized pension expense of \$1,955,537 and \$3,923,420, respectively.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

Deferred outflows of resources and deferred inflows of resources

As of June 30, 2018 and 2017, MTA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| <u>2018:</u> | | |
| Difference between projected and actual earnings on pension plan investments | \$ 343,128 | \$ - |
| Difference between expected and actual experience | 1,185,740 | - |
| Changes of assumptions | 1,002,399 | (1,306,801) |
| Contributions subsequent to the measurement date | <u>3,058,880</u> | <u>-</u> |
| Total | <u>\$5,590,147</u> | <u>\$(1,306,801)</u> |
| <u>2017:</u> | | |
| Difference between projected and actual earnings on pension plan investments | \$1,106,245 | \$ - |
| Difference between expected and actual experience | 1,204,612 | - |
| Changes of assumptions | 1,252,998 | (1,262,057) |
| Contributions subsequent to the measurement date | <u>2,849,136</u> | <u>-</u> |
| Total | <u>\$6,412,991</u> | <u>\$(1,262,057)</u> |

The amounts shown above for contributions subsequent to the measurement date will be recognized as a reduction to net pension liability in the following measurement period.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

J. PENSION PLAN - Continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2018 will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | | |
|----------------------------|--|---------------------|
| 2019 | | \$ 140,580 |
| 2020 | | 743,917 |
| 2021 | | 413,181 |
| 2022 | | (1,397) |
| 2023 | | (61,906) |
| Thereafter | | <u>(9,909)</u> |
| | | <u>\$ 1,224,466</u> |

In table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2018 and 2017, MTA’s payables for the outstanding amount of contributions to the pension plan required were not material.

K. OTHER POSTEMPLOYMENT BENEFITS

Plan Description:

MTA offers, through DTO, postemployment medical, dental, vision, prescription card and life insurance benefits to eligible retirees and dependents through the Davidson Transit Organization Employee Benefit Trust (the “Health Plan”). The Health Plan is a single-employer defined benefit plan. Benefit provisions are established and amended primarily through negotiations between DTO and the Amalgamated Transit Union. As of June 30, 2018, the latest actuarial valuation date, the Health Plan covered 188 retirees receiving benefits and 637 active participants.

MTA accounts for other post-employment benefits in accordance with GASB No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (“OPEB”)*, effective for fiscal years beginning after June 15, 2017. Prior to this date, MTA accounted for postemployment benefits other than pensions in accordance with GASB No. 45. GASB No. 75 establishes standards for recognizing and measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources and OPEB expense for employers who participate in a trusted or non-trusted single-employer, agent multiple-employer or cost-sharing multiple-employer plan.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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K. OTHER POSTEMPLOYMENT BENEFITS - Continued

Plan and Employer Reporting:

The Health Plan issues a publicly available report that includes the financial statements and certain required supplementary information. That report may be obtained by writing to MTA, 430 Myatt Drive, Madison, Tennessee, 37115, or by calling (615) 862-5969.

Funding Policy:

The Health Plan is funded by monthly contributions from (i) the Employer, based on rates determined by management in consultation with the Health Plan's actuary and third party administrator, and (ii) covered retirees through deductions from their pension benefits, in accordance with the agreement between DTO and the Amalgamated Transit Union. Employer contributions are generally made on a pay-as-you-go basis. Retiree contributions are generally \$90 for retiree-only and \$165 for retiree and family coverage. Retiree contributions received during the years ended June 30, 2018 and 2017 totaled \$285,603 and \$275,401, respectively.

Experience gains or losses were amortized over the average working lifetime of all participants. Plan amendments are recognized immediately. Changes in actuarial assumptions are amortized over the average working lifetime of all participants.

Changes in the Net OPEB Liability

| | Total OPEB Liability <u>(a)</u> | Plan Net Position <u>(b)</u> | Net OPEB Liability <u>(a) - (b)</u> |
|---|---------------------------------------|------------------------------------|---|
| Total OPEB liability as of June 30, 2017 | \$ 58,752,177 | \$ - | \$ 58,752,177 |
| Changes for the Year: | | | |
| Service Cost | 4,117,831 | - | 4,117,831 |
| Interest Cost (including interest on service cost) | 2,390,826 | - | 2,390,826 |
| Change of Benefit Terms | - | - | - |
| Difference between expected and actual experience | - | - | - |
| Changes of assumptions | - | - | - |
| Other changes | - | - | - |
| Contributions - Employer | - | - | - |
| Net Investment Income | - | - | - |
| Benefits paid | <u>(2,501,538)</u> | <u>-</u> | <u>(2,501,538)</u> |
| Administrative expense | - | - | - |
| Net Change in total OPEB liability | <u>4,007,119</u> | <u>-</u> | <u>4,007,119</u> |
| Total OPEB liability as of June 30, 2018 | <u>\$ 62,759,296</u> | <u>\$ -</u> | <u>\$ 62,759,296</u> |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

K. OTHER POSTEMPLOYMENT BENEFITS - Continued

Total OPEB expense as of June 30, 2018, includes service cost at July 1, 2017, of \$4,117,831 and interest cost (including interest on service cost) of \$2,390,826 totaling \$6,508,657.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate - The following presents the net OPEB liability of MTA, as well as what MTA net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.88%) or 1-percentage-point higher (4.88%) than the current discount rate:

| | 1% Decrease 2.88% | Current Rate 3.88% | 1% Increase 4.88% |
|--------------------|----------------------|-----------------------|----------------------|
| Net OPEB Liability | \$73,371,897 | \$62,759,296 | \$54,278,219 |

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates – The following presents the net OPEB liability of MTA, as well as, what MTA’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 4% over 5 years) or 1-percentage-point higher (7.5% decreasing to 6% over 5 years) than the current healthcare cost trend rates:

| | 1% Decrease 5.5% decreasing to 3% over 5 years | Current 6.5% decreasing to 4% over 5 years | 1% Increase 7.5% decreasing to 5% over 5 years |
|--------------------|---|---|---|
| Net OPEB Liability | \$54,255,565 | \$62,759,296 | \$73,630,846 |

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

K. OTHER POSTEMPLOYMENT BENEFITS - Continued

Actuarial Assumptions:

In the June 30, 2018, actuarial valuation, the following significant actuarial methods and assumptions were used:

| | |
|-----------------------------|---|
| Actuarial valuation method | Individual entry age normal cost method |
| Amortization method | Level percentage of projected salary |
| Discount rate | 3.88% |
| Health care cost trend rate | 6.50% in fiscal year 2018; reducing to 4.00% in fiscal 2023. Level 4.00% for age 65 and later |
| Mortality | RP-2014 Total Table with Projection MP-2017 |
| Retirement rates | Rates developed from the 2016 Buck Experience Study |

The discount rate was based on the Bond Buyer Go Bond 20 Index as of June 30, 2018.

See further information in the Other Postemployment Benefits Schedule of Funding Progress (Unaudited) in the Required Supplementary Information section.

L. COMMITMENTS AND CONTINGENCIES

Grants:

MTA has received federal, state and local grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to grantors, except as described in Note E.

According to grant agreements with the FTA, MTA is liable for certain reimbursement of federal funds used to purchase property and equipment assets if such assets are disposed of prior to the end of their useful lives, except in situations where MTA expects to replace or restore the assets. In May 2010, Nashville, Tennessee experienced a significant flood, and MTA experienced losses to assets. Many of these assets were purchased with federal funds. MTA management has worked with, and is continuing to work with, the FTA and FEMA to replace or restore all federal purchased assets. MTA could be liable if certain assets are not properly replaced or restored. However, management believes all such property has been or will be replaced or restored in accordance with grant agreements, and accordingly, no provision has been made for potential reimbursement to grantors.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

L. COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress:

Included in construction in progress at June 30, 2018 are various projects, as described in Note D. Estimated costs to complete these projects were as follows at June 30, 2018:

| | |
|------------------------------|---------------------|
| Signal priority project | \$ 6,500,000 |
| Nolensville Shelter Project | 3,000,000 |
| Music City Center and Nester | 5,000,000 |
| Fare technology upgrades | <u>13,000,000</u> |
| | <u>\$27,500,000</u> |

Costs to complete other projects in progress are not expected to be material. MTA expects that all significant costs to complete construction in progress will be funded through federal, state and local capital grants.

Litigation:

In the ordinary course of business, MTA is a defendant in various lawsuits. When necessary, reserves are provided as information is available. MTA consults with its legal counsel in determining the reserves. Based on management's analysis as of June 30, 2018, there are no current or pending items that are expected to have a material adverse impact on MTA's financial condition or operations. Accordingly, no reserves have been provided as of June 30, 2018.

MTA is also engaged in various employment related lawsuits and claims arising in the normal course of business. In consultation with legal counsel, management has determined that the outcome and amount of liability, if any, associated with such matters is not presently determinable. Accordingly, no reserve has been recorded in the accompanying financial statements.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

M. NET POSITION

The details of net position as of June 30, 2018 and 2017, are as follows:

| | <u>2018</u> | <u>2017</u> <u>(restated)</u> |
|---|----------------------|----------------------------------|
| Net investment in capital assets: | | |
| Property and equipment, net | \$ 131,440,727 | \$ 126,727,575 |
| Less: Borrowings and other liabilities related to capital assets: | | |
| Portion of note payable relating to capital assets | - | - |
| Unearned revenues | (8,557,462) | (9,147,465) |
| Other liabilities relating to capital assets | <u>(3,838,133)</u> | <u>(572,413)</u> |
| Total net investment in capital assets | 119,045,132 | 117,007,697 |
| Restricted | 7,406,806 | 8,128,077 |
| Unrestricted | <u>(70,299,347)</u> | <u>(68,435,817)</u> |
| Total net position | <u>\$ 56,152,591</u> | <u>\$ 56,699,957</u> |

Net investment in capital assets represents the property and equipment that MTA has full ownership of through settlement of the debt issued in order to obtain and construct those assets.

During fiscal year 2017, MTA received \$7,560,000, of which \$6,987,178 remains as of June 30, 2018, from the sale of Clement Landport, as described in Note D. These funds must be utilized in accordance with FTA regulations and directives. Accordingly, such funds are included in restricted net position at June 30, 2018.

Also included in restricted net position at June 30, 2018 and 2017, is \$419,628 and \$568,077, respectively, of funds received relating to NES proceeds, which are restricted under FTA regulations.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

N. RELATED PARTY TRANSACTION

MTA has an agreement with the Regional Transportation Authority (“RTA”) under which MTA provides contracted labor and other support to RTA. Specifically, the senior leadership team of MTA, including the Chief Executive Officer and Chief Financial Officer, also serve as senior leadership of RTA. MTA also provides certain accounting and support services under the agreement. MTA has also had agreements with RTA during fiscal years 2018 and 2017 for certain contracted bus services. Revenue from the RTA for all contracted services during fiscal 2018 and 2017 totaled \$2,477,914 and \$2,370,340, respectively. At June 30, 2018 and 2017, the receivable from the RTA, included in accounts receivable in the accompanying statements of net position, totaled \$420,862 and \$597,002, respectively.

O. CONDENSED FINANCIAL INFORMATION BY ENTITY

The following information presents the condensed financial information for MTA and its blended component unit, DTO. No separate financial statements are prepared or issued for DTO. Such information is presented in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No. 14 and 34*:

METROPOLITAN TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

O. CONDENSED FINANCIAL INFORMATION BY ENTITY - Continued

| | June 30, 2018 | | |
|---|--------------------------------------|-------------------------------------|-------------------|
| | Metropolitan Transit Authority | Davidson Transit Organization | Total |
| Condensed Statements of Net Position | | | |
| Assets | | | |
| Current assets | \$ 13,820,821 | \$ 2,126,196 | \$ 15,947,017 |
| Capital assets, net | 131,440,727 | - | 131,440,727 |
| Other assets | 8,688,229 | 350,000 | 9,038,229 |
| Total assets | 153,949,777 | 2,476,196 | 156,425,973 |
| Deferred outflows of resources | - | 6,304,587 | 6,304,587 |
| Total assets and deferred outflows of resources | \$ 153,949,777 | \$ 8,780,783 | \$ 162,730,560 |
| Liabilities | | | |
| Current liabilities | \$ 11,783,299 | \$ 5,831,239 | \$ 17,614,538 |
| Noncurrent liabilities | 9,689,421 | 77,967,209 | 87,656,630 |
| Total liabilities | 21,472,720 | 83,798,448 | 105,271,168 |
| Deferred inflows of resources | - | 1,306,801 | 1,306,801 |
| Net position | | | |
| Net investment in capital assets | 119,045,132 | - | \$ 119,045,132 |
| Restricted | 7,406,806 | - | 7,406,806 |
| Unrestricted | 6,025,119 | (76,324,466) | (70,299,347) |
| Total net position | 132,477,057 | (76,324,466) | 56,152,591 |
| Total liabilities, deferred inflows of resources and net position | \$ 153,949,777 | \$ 8,780,783 | \$ 162,730,560 |
| Condensed Statements of Revenues, Expenses and Changes in Net Position | | | |
| Operating revenues | \$ 11,682,975 | \$ - | \$ 11,682,975 |
| Operating expenses | 38,327,733 | 63,095,667 | 101,423,400 |
| Operating loss | (26,644,758) | (63,095,667) | (89,740,425) |
| Nonoperating revenues (expenses), net | 58,230,986 | - | 58,230,986 |
| Capital contributions | 30,962,073 | - | 30,962,073 |
| Transfers | (59,959,456) | 59,959,456 | - |
| Change in net position | 2,588,845 | (3,136,211) | (547,366) |
| Net position - beginning of year | 129,888,212 | (73,188,255) | 56,699,957 |
| Net position - end of year | \$ 132,477,057 | \$ (76,324,466) | \$ 56,152,591 |
| Condensed Statements of Cash Flows | | | |
| Cash flows from operating activities | \$ (10,662,460) | \$ (59,215,716) | \$ (69,878,176) |
| Cash flows from noncapital financing activities | 58,811,651 | - | 58,811,651 |
| Cash flows from capital and related financing activities | 8,460,144 | - | 8,460,144 |
| Cash flows from investing activities | 1,144,771 | - | 1,144,771 |
| Transfers | (59,733,899) | 59,733,899 | - |
| Change in cash and cash equivalents | (1,979,793) | 518,183 | (1,461,610) |
| Cash and cash equivalents - beginning of year | 14,215,161 | 1,453,586 | 15,668,747 |
| Cash and cash equivalents - end of year | \$ 12,235,368 | \$ 1,971,769 | \$ 14,207,137 |

CONDENSED FINANCIAL INFORMATION BY ENTITY - Continued

| | June 30, 2017 | | |
|---|-----------------------|--------------------------|-----------------------|
| | Metropolitan | Davidson | Total |
| | Transit Authority | Transit Organization | |
| Condensed Statements of Net Position | | | |
| Assets | | | |
| Current assets | \$ 11,528,791 | \$ 1,950,235 | \$ 13,479,026 |
| Capital assets, net | 126,727,575 | - | 126,727,575 |
| Other assets | 13,314,028 | 350,000 | 13,664,028 |
| Total assets | 151,570,394 | 2,300,235 | 153,870,629 |
| Deferred outflows of resources | - | 6,636,188 | 6,636,188 |
| Total assets and deferred outflows of resources | <u>\$ 151,570,394</u> | <u>\$ 8,936,423</u> | <u>\$ 160,506,817</u> |
| Liabilities | | | |
| Current liabilities | \$ 7,348,766 | \$ 5,137,660 | \$ 12,486,426 |
| Noncurrent liabilities | 14,333,416 | 75,724,961 | 90,058,377 |
| Total liabilities | 21,682,182 | 80,862,621 | 102,544,803 |
| Deferred inflows of resources | - | 1,262,057 | 1,262,057 |
| Net position | | | |
| Net investment in capital assets | 117,007,697 | - | 117,007,697 |
| Restricted | 8,128,077 | - | 8,128,077 |
| Unrestricted | 4,752,438 | (73,188,255) | (68,435,817) |
| Total net position | 129,888,212 | (73,188,255) | 56,699,957 |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 151,570,394</u> | <u>\$ 8,936,423</u> | <u>\$ 160,506,817</u> |
| Condensed Statements of Revenues, Expenses and Changes in Net Position | | | |
| Operating revenues | \$ 13,611,880 | \$ - | \$ 13,611,880 |
| Operating expenses | 36,632,535 | 62,369,493 | 99,002,028 |
| Operating loss | (23,020,655) | (62,369,493) | (85,390,148) |
| Nonoperating revenues (expenses), net | 57,305,933 | - | 57,305,933 |
| Capital contributions | 19,058,833 | - | 19,058,833 |
| Transfers | (54,665,899) | 54,665,899 | - |
| Change in net position | (1,321,788) | (7,703,594) | (9,025,382) |
| Net position - beginning of year | 131,210,000 | (65,484,661) | 65,725,339 |
| Net position - end of year, as restated | <u>\$ 129,888,212</u> | <u>\$ (73,188,255)</u> | <u>\$ 56,699,957</u> |
| Condensed Statements of Cash Flows | | | |
| Cash flows from operating activities | \$ (6,942,333) | \$ (55,181,042) | \$ (62,123,375) |
| Cash flows from noncapital financing activities | 49,206,937 | - | 49,206,937 |
| Cash flows from capital and related financing activities | 17,885,960 | - | 17,885,960 |
| Cash flows from investing activities | 1,116,825 | - | 1,116,825 |
| Transfers | (54,665,899) | 54,665,899 | - |
| Change in cash and cash equivalents | 6,601,490 | (515,143) | 6,086,347 |
| Cash and cash equivalents - beginning of year | 7,613,671 | 1,968,729 | 9,582,400 |
| Cash and cash equivalents - end of year | <u>\$ 14,215,161</u> | <u>\$ 1,453,586</u> | <u>\$ 15,668,747</u> |

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN TRANSIT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS

PENSION PLAN

| | 2018 <small>(2017 Measurement)</small> | 2017 <small>(2016 Measurement)</small> | 2016 <small>(2015 Measurement)</small> | 2015 <small>(2015 Measurement)</small> |
|--|---|---|---|---|
| TOTAL PENSION LIABILITY | | | | |
| Service cost | \$ 2,300,483 | \$ 2,274,196 | \$ 2,067,568 | \$ 1,765,386 |
| Interest | 4,403,968 | 4,161,680 | 3,796,926 | 3,623,679 |
| Change in benefit terms | - | 1,741,746 | - | - |
| Difference between expected and actual experience | 235,342 | 996,205 | 499,931 | - |
| Change of assumptions | (311,269) | (1,483,471) | 1,754,196 | - |
| Benefit payments | <u>(3,722,226)</u> | <u>(3,670,960)</u> | <u>(3,568,443)</u> | <u>(3,409,727)</u> |
| Net change in total pension liability | 2,906,298 | 4,019,396 | 4,550,178 | 1,979,338 |
| Total pension liability beginning | <u>57,245,535</u> | <u>53,226,139</u> | <u>48,675,961</u> | <u>46,696,623</u> |
| Total pension liability ending (a) | <u>\$ 60,151,833</u> | <u>\$ 57,245,535</u> | <u>\$ 53,226,139</u> | <u>\$ 48,675,961</u> |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions - employer | \$ 2,643,077 | \$ 2,979,190 | \$ 3,054,164 | \$ 2,895,419 |
| Contributions - member | 1,610,224 | 1,440,038 | 1,265,337 | 1,199,775 |
| Net investment income | 4,340,908 | 968,227 | 1,238,070 | 5,413,466 |
| Benefit payments, including refunds of member contributions | (3,722,226) | (3,670,960) | (3,568,443) | (3,409,727) |
| Administration expenses | <u>(200,814)</u> | <u>(173,318)</u> | <u>(141,239)</u> | <u>(143,644)</u> |
| Net change in plan fiduciary net position | 4,671,169 | 1,543,177 | 1,847,889 | 5,955,289 |
| Plan fiduciary net position - beginning | <u>40,272,751</u> | <u>38,729,574</u> | <u>36,881,685</u> | <u>30,926,396</u> |
| Plan fiduciary net position - ending (b) | <u>\$ 44,943,920</u> | <u>\$ 40,272,751</u> | <u>\$ 38,729,574</u> | <u>\$ 36,881,685</u> |
| Net pension liability (a) - (b) | <u>\$ 15,207,913</u> | <u>\$ 16,972,784</u> | <u>\$ 14,496,565</u> | <u>\$ 11,794,276</u> |
| Plan fiduciary net position as a percentage of total pension liability | 74.72% | 70.35% | 72.76% | 75.77% |
| Covered - payroll | \$34,102,965 | \$31,637,919 | \$28,118,610 | \$26,661,317 |
| Net pension liability as a percentage of covered - payroll | 44.59% | 53.64% | 51.56% | 44.24% |

See accompanying notes to required supplementary information.

METROPOLITAN TRANSIT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS

PENSION PLAN - Continued

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule:

Changes in benefit terms:

2016 Measurement - amounts reported as changes in benefit terms resulted from a cost of living adjustment to retirees of 1.50% through plan year 2018.

Changes in assumptions:

2017 Measurement - the discount rate was changed from 7.63% to 7.68%.

2016 Measurement - amounts reported as changes in assumptions resulted from (i) adjustments to assumed life expectancies for healthy and disabled lives as a result of adopting the RP-2014 Base Mortality Table with Blue Collar Adjustments, or Disabled Adjustments, with generational mortality improvements based on the Buck Modified MP-2015 improvement scale; (ii) change in retirement rates, withdrawal rates, disability rates and salary increase rates based on a 2016 experience study of the Plan; (iii) a change in the discount rate from 7.75% to 7.63%.

2015 Measurement - amounts reported as changes in assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustments with fully generational mortality improvement projections using Scale BB.

See accompanying notes to required supplementary information.

METROPOLITAN TRANSIT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 SCHEDULE OF EMPLOYER CONTRIBUTIONS

PENSION PLAN

| <u>Fiscal Year Ended</u> | <u>Actuarially Determined Contribution</u> | <u>Contribution in Relation to the Actuarially Determined Contributions</u> | <u>Contribution (Excess) Deficiency</u> | <u>Covered Payroll</u> | <u>Contribution as a Percent of Covered Payroll</u> |
|------------------------------|--|---|---|----------------------------|---|
| June 30, 2018 | \$2,536,066 | \$3,058,880 | \$(522,814) | \$36,771,429 | 8.32% |
| June 30, 2017 | 2,621,332 | 2,849,136 | (227,804) | 34,445,884 | 8.27% |
| June 30, 2016 | 2,720,861 | 2,979,190 | (258,329) | 31,637,919 | 9.42% |
| June 30, 2015 | 2,963,701 | 3,054,164 | (90,463) | 28,118,610 | 10.86% |
| June 30, 2014 | 2,852,761 | 2,895,419 | (42,658) | 26,661,347 | 10.86% |

This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information.

METROPOLITAN TRANSIT AUTHORITY
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 JUNE 30, 2018

PENSION PLAN

METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF
 ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates for the fiscal years ended June 30, 2018 and 2017, for the Plan were calculated as the result of an actuarial valuation performed on July 1, 2017 and 2016, respectively. The following assumptions were used to determine contribution rates as reported in the Schedule for Employer Contributions:

| Assumption | Actuarial Valuations July 1, 2017 and 2016 |
|--------------------------------|---|
| Cost-of-living adjustment | 1.5% annually through plan year 2018 |
| Projected salary increases | Sliding scale based on years of service as determined from the 2016 actuarial experience study. Rates range from 10.00% to 3.25% in the first 5 years of service and are assumed at 3.25% per year thereafter |
| Normal retirement age | Various rates of retirement applied to age 55 through 70. Rate applied to the normal retirement age of 65 is 50%. |
| Form of payment | Single life annuity |
| Investment rate of return | 7.75% per year net of pension plan investment expenses, compounded annually |
| Amortization method and period | Level dollar basis over an open period of 20 years |
| Actuarial cost method | Entry age normal |
| Asset valuation method | 5 year phase-in of realized and unrealized gains and losses, 20% corridor |
| Mortality rates | Healthy mortality: RP-2014 base mortality table with blue collar adjustments and generational future mortality improvements based on the Buck Modified MP-2015 improvement scale Disabled mortality: RP-2014 Disabled Retiree Mortality with generational future mortality improvements based on the Buck Modified MP-2015 improvement scale |

Additionally, it is assumed that contributions from plan members will be made at the current contribution rate and the contributions from the Employer will continue to follow the current funding policy, which is actuarially determined.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2018

PENSION PLAN

METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF
ACTUARIALLY DETERMINED CONTRIBUTIONS - Continued

Information on the Pension Plan's money-weighted investment rate of return can be found in the separately issued Plan financial statements.

METROPOLITAN TRANSIT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
 OPEB PLAN
 (Unaudited)

| | Fiscal Year Ending June 30, 2018 |
|---|---|
| Total OPEB liability | |
| Service cost | \$ 4,117,831 |
| Interest | 2,390,826 |
| Changes of benefit items | - |
| Differences between expected and actual experience | - |
| Changes of assumptions | - |
| Benefit payments, including refunds of employee contributions | <u>(2,501,538)</u> |
| Net change in total OPEB liability | 4,007,119 |
| Total OPEB liability-beginning | <u>58,752,177</u> |
| Total OPEB liability-ending (a) | <u><u>\$ 62,759,296</u></u> |
| Plan fiduciary net position | |
| Contributions-employer | \$ 2,501,538 |
| Contributions-employee | - |
| Net investment income | - |
| Benefit payments, including refunds of employee contributions | (2,051,538) |
| Administrative expenses | <u>-</u> |
| Net change in plan fiduciary net position | - |
| Plan fiduciary net position-beginning | <u>-</u> |
| Plan fiduciary net position-ending (b) | <u><u>\$ -</u></u> |
| Net OPEB liability -ending (a) - (b) | <u><u>\$ 62,759,296</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% |
| Covered payroll | \$ 33,100,534 |
| Net OPEB liability as a percentage of covered payroll | 189.60% |

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

METROPOLITAN TRANSIT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 OPEB PLAN
 (Unaudited)

| | Fiscal Year Ending June 30, 2018 |
|--|---|
| Actuarially determined contribution | \$ 2,501,538 |
| Contributions in relation to the actuarially determined contribution | - |
| Contribution deficiency (excess) | <u>\$ 2,501,538</u> |
| Covered payroll | \$ 33,100,534 |
| Contributions as a percentage of covered payroll | 7.56% |

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2018 actuarial valuation.

Methods and assumptions used to determine contribution rates:

| | |
|-----------------------------|--|
| Actuarial valuation method | Individual entry age normal cost method |
| Amortization method | Level percentage of projected salary |
| Discount rate | 3.88% |
| Health care cost trend rate | 6.50% in fiscal year 2018, reducing to 4.00% in fiscal 2023. Level 4.00% for age 65 and later |
| Mortality | RP-2014 Total Table with Projection MP-2107 |
| Retirement rates | Rates developed from the 2016 Buck Experience Study |

The discount rate was based on the Bond Buyer Go Bond 20 Index as of June 30, 2018.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ADDITIONAL INFORMATION

**METROPOLITAN TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2018**

| Federal Grantor/ Pass-Through Grantor | CFDA Number | Contract Number | Expenditures | Federal Passed-through to Subrecipients |
|--|-------------|-----------------|-----------------------------|---|
| <u>Federal Awards</u> | | | | |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-95-X062 | \$ 41,262 | \$ 41,262 |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-95-X091 | 1,535,851 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X358 | 678,991 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-367 | 665 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-386 | 121,918 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-376 | 2,073,104 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-421 | 536,839 | 401,814 |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-434 | 9,850,640 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.507 | TN-90-X-391 | 406,818 | - |
| Total Program 20.507 | | | <u>15,246,088</u> | <u>443,076</u> |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.526 | TN-34-0019 | 496,142 | - |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.526 | TN-34-0010 | 171,667 | - |
| Total Program 20.526 | | | <u>667,809</u> | <u>-</u> |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.500 | TN-04-0067 | 205,960 | - |
| Total Program 20.500 | | | <u>205,960</u> | <u>-</u> |
| *Total Federal Transit Cluster | | | <u>16,119,857</u> | <u>443,076</u> |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.513 | TN-16-X009 | 10,156 | 10,156 |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.513 | TN-16-X017 | 424,626 | 311,469 |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.513 | TN-16-X015 | 168,683 | 168,683 |
| Total Program 20.513 | | | <u>603,465</u> | <u>490,308</u> |
| U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | 20.933 | TN-79-0001 | 4,398,559 | - |
| *Total Program 20.933 | | | <u>4,398,559</u> | <u>-</u> |
| TOTAL U.S. DEPARTMENT OF TRANSPORTATION/ TN DEPT. OF TRANSPORTATION | | | <u>21,121,881</u> | <u>933,384</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY - FEDERAL EMERGENCY MANAGEMENT AGENCY | 97.036 | Not Applicable | 3,812,027 | - |
| *Total Program 97.036 | | | <u>3,812,027</u> | <u>-</u> |
| TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY | | | <u>3,812,027</u> | <u>-</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 24,933,908</u> | <u>\$ 933,384</u> |
| <u>State Financial Assistance</u> | | | | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-18-59197 | 191,981 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-14-39342 | 84,874 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-15-47193 | 15,240 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-15-43716 | 259,137 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Z-16-UAP001 | 209,443 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Pending | 1,231,330 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Z-16-UAP001 | 203,409 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Pending | 2,244 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Pending | 124,208 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Pending | 21,086 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | Z-18-BBFP | 62,018 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-17-53233 | 21,458 | |
| TENNESSEE DEPARTMENT OF TRANSPORTATION | N/A | GG-18-55391 | 25,745 | |
| TENNESSEE DEPARTMENT OF MILITARY/TENNESSEE EMERGENCY MANAGEMENT AGENCY | N/A | 34101-000006615 | 211,779 | State matching for FEMA award above |
| TOTAL STATE AWARDS | | | <u>2,663,952</u> | |
| TOTAL FEDERAL & STATE AWARDS | | | <u>\$ 27,597,860</u> | |

*Denotes a major program

METROPOLITAN TRANSIT AUTHORITY
 NOTES TO SCHEDULES OF EXPENDITURES OF
 FEDERAL, STATE AND LOCAL AWARDS
 YEAR ENDED JUNE 30, 2018

A. BASIS OF PRESENTATION

The schedules of expenditures of federal, state and local awards are prepared on the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the schedules of expenditures of federal, state and local awards present only a selected portion of MTA’s operations, they are not intended to and do not present the financial position, changes in net position or cash flows of MTA.

The schedules of expenditures of federal, state and local awards include the grant activity of the Metropolitan Transit Authority (“MTA”) and its blended component unit, Davidson Transit Organization (“DTO”). DTO is a legally separate 501(c)(3) not-for-profit organization which was formed to provide the necessary labor to operate MTA’s transit system. Accordingly, certain federal, state and local awards received by MTA are used to reimburse labor costs incurred by DTO. Such funds received by MTA and used to reimburse DTO are reported in the accompanying schedules of federal, state and local awards by the receiving agency to avoid duplication of the aggregate level of federal awards expected by MTA, the reporting entity. Accordingly, such funds are included only once. Such funds are subject to the compliance requirements that could have a direct and material effect on a major program and are subject to audit under Uniform Guidance.

The detail of federal awards passed from MTA to DTO, included in the accompanying schedule of expenditures of federal awards, is as follows:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Expenditures</u> |
|--------------------------------|--------------------|---------------------|
| Federal Transit Formula Grants | 20.507 | \$7,943,306 |
| EMSID | 20.513 | <u>76,644</u> |
| | | <u>\$8,019,950</u> |

As the funds above are passed within the same financial reporting entity, they are not included as pass-through funds reported separately in the schedule of expenditures of federal awards.

B. PROGRAM CLUSTERS

Uniform Guidance defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, similar programs deemed to be a cluster of programs are reported and tested accordingly.

METROPOLITAN TRANSIT AUTHORITY
NOTES TO SCHEDULES OF EXPENDITURES OF
FEDERAL, STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2018

C. CONTINGENCY

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of MTA. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

Funds received from the Federal Emergency Management Agency (FEMA) passed - through the Tennessee Emergency Management Agency (TEMA), totaling \$1,131,959, have been recorded by MTA as a refundable grant until such time when FEMA/TEMA performs close-out procedures on the related grants and determine final eligibility of expenditures.

D. DE MINIMIS COST RATE

MTA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER REPORTS



Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

Board of Directors
Metropolitan Transit Authority
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Metropolitan Transit Authority ("MTA"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise MTA's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Crosslin, PLLC

Nashville, Tennessee
October 31, 2018



Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance
Required by the Uniform Guidance

Board of Directors
Metropolitan Transit Authority
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the compliance of Metropolitan Transit Authority ("MTA"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MTA's major federal programs for the year ended June 30, 2018. MTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MTA's compliance.



Opinion on Each Major Federal Program

In our opinion, MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of MTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MTA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
October 31, 2018

METROPOLITAN TRANSIT AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> | |
|---------------------------------|---|---------------------|
| <u>Federal Transit Cluster:</u> | | |
| 20.507 | Federal Transit Administration Formula Grants | \$15,246,088 |
| 20.500 | Federal Transit Administration Capital Grants | 205,960 |
| 20.526 | Federal Transit Administration Capital Grants | <u>667,809</u> |
| | Federal Transit Cluster | 16,119,857 |
| 20.933 | Federal Transit Administration Capital Grant | 4,398,559 |
| 97.036 | FEMA - Public Assistance | <u>3,812,027</u> |
| | | <u>\$24,330,443</u> |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes no

METROPOLITAN TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

METROPOLITAN TRANSIT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

MTA had no prior year audit findings.