WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET

STEAMSHIP AUTHORITY

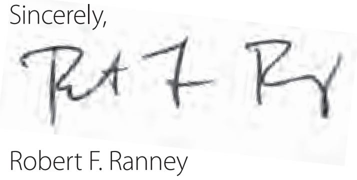
2017 ANNUAL REPORT

To: His Excellency, the Governor

To: The Members of the General Court

The 2017 Annual Report of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is respectfully submitted in accordance with Section 13 of Chapter 701 of the Acts of 1960, as amended by Chapter 276 of the Acts of 1962.

Sincerely,



Robert F. Ranney
Nantucket
Chairman, 2018

AUTHORITY MEMBERS – 2017

Moira E. Tierney

CHAIRMAN
NEW BEDFORD

Robert F. Ranney

VICE CHAIRMAN
NANTUCKET

Robert R. Jones

SECRETARY
BARNSTABLE

Marc N. Hanover

MEMBER
MARTHA'S VINEYARD

Elizabeth H. Gladfelter

MEMBER
FALMOUTH

Port Council Members – 2017

George J. Balco - Tisbury, Chairman
Nathaniel E. Lowell - Nantucket, Vice Chairman
Edward C. Anthes-Washburn - New Bedford, Secretary
Eric W. Shufelt - Barnstable
Frank J. Rezendes - Fairhaven
Robert S. C. Munier - Falmouth
Robert V. Huss - Oak Bluffs

General Manager

Wayne C. Lamson (January – June)
Robert B. Davis (July – December)

Treasurer/Comptroller

Robert B. Davis (January – June)
Gerard J. Murphy (July – December)

General Counsel

Steven M. Sayers

WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET

STEAMSHIP AUTHORITY

2017 ANNUAL REPORT • TABLE OF CONTENTS

2017 Overview 4-19

Traffic Statistics 20-23

Independent Auditors' Report 26-27

Management's Discussion and Analysis (Unaudited) 28-41

Financial Statements as of and for the Years Ended December 31, 2017 and 2016:

Statements of Net Position 42-43

Statements of Revenues, Expenses and Changes in Net Position 44

Statements of Cash Flows 45

Notes to Financial Statements 46-74

Required Supplementary Information (Unaudited):

Schedule of Changes in Net Pension Liability of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Pension Plan 75

Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Other Postemployment Benefit Plan 75

Schedule of Employer Contributions to the Multiemployer Pension Plans 76

2017 OVERVIEW

In 2017, the Steamship Authority's vessels made a total of 22,843 trips carrying 3,059,049 passengers, 481,425 automobiles and 189,388 trucks of all sizes to or from the islands of Martha's Vineyard and Nantucket. Those totals, by most accounts, would indicate that 2017 was another successful and productive year for the Steamship Authority. But 2017 was also a year of change, challenges and accomplishments.

The total number of passengers carried in 2017 decreased by 2.2% from those carried in 2016 as passenger traffic on the Nantucket route decreased by 68,046, or 10.3%. Automobiles carried in 2017 decreased by 0.3%, while trucks carried in 2017 increased by 4.0% from the previous year. Overall, the total number of vehicles carried increased by 0.9% versus 2016. Approximately 87% of all vehicles carried by the Authority in 2017 were less than 20 feet in length. Also in 2017, approximately 35% of the automobiles carried by the Authority originated from the islands and travelled at auto excursion rates.

The Authority's operating revenues in 2017 totaled $102,911,758, a decrease of $984,381, or 0.9%, versus 2016. Passenger revenue accounted for 31% of the Authority's total operating revenues in 2017, whereas automobile, freight, parking and miscellaneous revenues represented 29%, 27%, 7% and 6%, respectively, of the Authority's 2017 total operating revenues.

Operating expenses totaled $95,018,138 in 2017, an increase of $1,266,683, or 1.4%, compared to the previous year. Maintenance expenses decreased by $3,109,000, or 16.5%, from 2016. The decreases in maintenance expenses in 2017 were primarily attributable to a decrease in dry dock expenses of $1,128,000; dolphin and dock work of $1,168,000; and engine parts and repairs of $552,000. The Authority's depreciation expenses increased by $166,000, or 1.5%, compared to the previous year, attributable to the addition of a full year of depreciation for the *M/V Woods Hole*.

Vessel operating expenses increased by $1,273,000, or 6.1%, versus 2016 due primarily to an increase of $822,000, or 16.6%, in vessel fuel oil expense. General expenses increased by $2,301,000, or 7.9%, from 2016, including increases in rents of $253,000, in pension contributions of $510,000 and in added employee health care costs of $612,000.

Interest on bonds and other fixed charges were offset by license fee income and other income to bring the Authority's total net operating income in 2017 to $7,995,968, a decrease of $1,959,454, or 19.7%, from the previous year. It was the 55th consecutive year without a deficit assessment on the taxpayers of the Authority's port communities.

The net cash provided by the Authority's operating activities each year is used to pay bond principal and to replace or upgrade its vessels, terminals and equipment.

Cash transfers from the Authority's Revenue Fund to its special-purpose funds in 2017 included $10,036,412 to the Sinking Fund to pay bond interest and principal coming due within the next 12 months, $10,689,753 to the Replacement Fund and $247,486 to the Reserve Fund. The Authority disbursed $12,142,000 from its Capital Improvement Fund and $18,385,000 from its Replacement Fund during 2017 in connection with various capital projects, including $10,999,000 toward the *M/V Martha's Vineyard* mid-life refurbishment project, $10,502,000 toward the construction of the new administration building in Falmouth, $3,049,000 toward the cost of design and engineering for the Woods Hole terminal reconstruction, $2,666,000 for the Woods Hole temporary terminal building, $744,000 toward various hardware and software upgrades, and $389,000 for servers for the new administration building.

A more detailed analysis of the Authority's financial statements for the year ended December 31, 2017, and further information regarding its 2017 fund transfers and use of special-purpose funds are included in the Management's Discussion and Analysis section of this report.

NEW TECHNOLOGIES DEBUT

In the spring of 2017, the Authority installed a new point-of-sale ticketing system, replacing a DOS-based system with a Windows-based system that allows the Authority to scan and keep track of individual tickets and tell when they are used. The upgrade also resulted in new ticket scanners being installed at all five of the Authority's terminals. Combined, these system implementations resulted in more efficient processing of passengers' ticketing requests and an improvement in the boarding process for passengers.

In the summer of 2017, the Authority began to issue radio-frequency ID cards ("RFID cards") to replace its paper ticket books. The new cards included not only the 46-ride monthly commuter cards for the Martha's Vineyard route but also adult, senior, student and child multi-ride cards for both the Martha's Vineyard and Nantucket routes. Customers can reload those cards either at a ticket office or on the Authority's website.

In September 2017, the Authority debuted a new Standby Notification System for those who are traveling on a standby basis from Nantucket. In the past, the Authority has had difficulty accommodating all of those customers at the Nantucket terminal when they return to see where they stand on the standby list for each trip. The new system allows customers to go to the Authority's website to see where they stand in the Nantucket standby line. Customers can also opt to receive text messages or emails that tell them when it is time to return to the terminal.

GRANT FUND SHARING

In November, the Steamship Authority entered into a memorandum of understanding with the Cape Cod Regional Transit Authority to share grant funds that the Transit Authority will receive from the Federal Transit Administration due to the Steamship Authority's participation in the National Transit Database program. By calculating the number of miles the Steamship Authority operated and the number of passengers it carried in 2015, an additional $3,142,840 was brought to Cape Cod to aid in funding local transportation initiatives. The Steamship Authority's share of that funding, $1,571,420, will be used to fund preventative maintenance programs.

NEW ADMINISTRATIVE OFFICE BUILDING

Construction on the Authority's new administrative offices was underway for much of 2017. G&R Construction of Quincy, Massachusetts, won the contract with a total price of $12,687,000 in October 2016. The building's foundation was completed and steel framing erected early in 2017; the work then shifted to the mechanical, electrical and plumbing systems. The building's progress was delayed when, in July, the contractor had to stop installing the sheathing for the building's siding because there was some deflection in the material when it was fastened to the steel framework; the material was later replaced with a different product, resulting in a delay of approximately four weeks in the building's original completion date of December 28, 2017.

The building is a three-story structure with a full basement, approximately 32,000 square feet in size, located within the Palmer Avenue parking lot, and will serve as the Authority's new administrative offices, public meeting space and IT/data center. The contract work includes associated site work for utilities, storm water drainage, new paved parking areas and landscaping. The project manual for the contract contains more than 1,500 pages of specifications and 239 pages of contract drawings.

WOODS HOLE TERMINAL RECONSTRUCTION PROJECT

Design and engineering for the reconstruction of the Woods Hole terminal began in March 2013 when the firm of Bertaux + Iwerks Architects of Boston, Massachusetts, was selected by the Massachusetts Designer Selection Board to perform study and design services.

In September 2016, a group of 13 Falmouth residents objected to the Massachusetts Department of Environmental Protection's (DEP) draft Chapter 91 license and filed a notice of appeal alleging that the project will interfere with navigation and the public rights of fishing, fowling and access to the Commonwealth's tidelands. At the Authority's request, DEP scheduled an expedited hearing on the appeal for January 2017. The 13 residents bore the burden of proving that the project will "significantly interfere" with public rights of navigation, fishing, fowling and access to the tidelands under DEP's regulations. In April 2017, the commissioner of the Department of Environmental Protection adopted the hearing officer's recommended decision in the administrative appeal proceedings. The agency subsequently issued its final Chapter 91 license for the project.

For much of 2017, the Authority's design team was working on the design development documents for the marine work that will take place in phases over the next several years, starting in 2018. In September, the Authority issued the invitation for bids for Phases 2 through 4 of the project, which consists of all the waterside work, including the reconstruction of all three ferry slips and the construction of two passenger loading piers, over the next four years. In December, the Authority Board Members awarded the contract to Jay Cashman Inc. of Quincy, Massachusetts, in the amount of $43,143,280. Separately, J.R. Vinagro Corporation of Johnston, Rhode Island, was named the winning bidder to demolish the Woods Hole terminal building for $155,000.

Because of the possibility that any significant ongoing construction activities during the summer months may have a detrimental impact on the Woods Hole community, the Martha's Vineyard economy and the Authority's operations, the Authority has concluded that the reconstruction of the terminal site should be scheduled in phases during the offseason as much as practicable. The proposed phases include:

PHASE 1: Construct a new administration building within the Palmer Avenue parking lot and construct a temporary terminal building at the Woods Hole terminal.

PHASE 2A: After moving to the new administration building and temporary terminal building, demolish the existing terminal/General Offices building and excavate a portion of the existing retained-earth pier.

PHASE 2B: Partially construct a new Slip 3, to be relocated generally where the wharf is currently located.

PHASE 3: Complete construction of new Slip 3 and construct new Slip 2 (formerly Slip 1) with new passenger loading walkways, ramps and an outer floating passenger platform.

PHASE 4: Complete construction of new Slip 1 (formerly Slip 2) with new passenger loading walkways, ramps and an outer floating passenger platform.

PHASE 5: Following reconstruction of the three ferry slips, construct the new terminal building. This work may extend past mid-June into the summer season between Phases 5 and Phase 6.

PHASE 6: Complete remaining work to be done at the site, including removal of the temporary terminal building, reconstruction of vehicle staging lanes, construction of equipment storage building and final landscaping.

The Authority expects the last construction phase to be completed by June 2023.

NEW TEMPORARY TERMINAL BUILDING

As part of the Woods Hole Terminal Reconstruction Project, a new temporary terminal building was constructed by Triumph Modular Inc. to serve the Authority's customers during the reconstruction project. The 3,600-square-foot temporary building, made up of six 12-by-60-foot modular units, was necessitated by the demolition of the Authority's former terminal building and administrative offices. The exterior of the building is wrapped in enlarged navigation charts showing the harbor areas of Woods Hole and Martha's Vineyard.

Triumph Modular delivered the units and placed them on their foundation in April 2017, with construction at the site completed in June. In the fall, the Authority's maintenance and MIS personnel completed interior work on the building, and the terminal opened for operations on December 4.

NEW BEDFORD FREIGHT SERVICE STUDY CONTINUES

In 2017, the Steamship Authority engaged the services of Craig Johnson of Flagship Management to investigate the feasibility of having a private vessel operator provide freight service between New Bedford and Martha's Vineyard. In August, Mr. Johnson issued his initial report on the possibility of such a freight service and presented his preliminary findings to the Authority Board.

Mr. Johnson's scope of work included reviewing the existing facilities in New Bedford, including the newly built New Bedford Marine Commerce Terminal and the Shuster property just to the north of it. Although both of those facilities had their upsides, each had significant challenges that led Mr. Johnson to focus his review on the New Bedford State Pier. That facility comes with its own drawbacks, namely the need for significant repairs, but is the most usable facility in New Bedford for freight service, Mr. Johnson concluded.

Mr. Johnson also reviewed potential ferry operators for the route by contacting 10 to 12 companies and asking them whether they would respond to a request for proposals to provide the service. Mr. Johnson stated that there is no question that there is interest, and that the potential operators' questions included the length of a contract or license, how reservations would be handled, how many round trips per day would be scheduled and when the service would start.

Mr. Johnson concluded that there is definitely some benefit to the Authority's freight shippers from using a service from New Bedford due to the large amount of freight traffic that passes the city en route to Woods Hole and that it ultimately will depend on finding the right operator with the right schedule who is willing to cater to the freight shippers to get their interest.

'FAIR WINDS AND FOLLOWING SEAS'

On June 30, the Authority bid farewell to its general manager, Wayne C. Lamson, who retired after 13 years in the position and 48 years of service to the Authority. Mr. Lamson presided over his last board meeting on June 27 on Nantucket.

Vice Chairman Robert F. Ranney read into the record a citation presented to Mr. Lamson by the House of Representatives of the Commonwealth of Massachusetts:

Be it hereby known to all that The Massachusetts House of Representatives offers its sincerest congratulations to **Wayne C. Lamson** in recognition of your 48 years of dedicated service to the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. Enjoy your retirement!

The entire membership extends its very best wishes and expresses the hope for future good fortune and continued success in all endeavors.

Given this 30th day of June, 2017 at the State House, Boston, Massachusetts by Robert A. DeLeo, Speaker of the House

Offered by: State Representatives, Dylan Fernandes and David T. Vieira

Board Member Elizabeth H. Gladfelter then read into the record an official citation from the State Senate of the Commonwealth of Massachusetts:

Let it be known that the Massachusetts Senate hereby extends its congratulations to **Wayne C. Lamson** in recognition of your 48 years of steadfast and dedicated service as an employee of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority; and Be it further known, that the Massachusetts Senate extends its best wishes for continued success; that this Citation be duly signed by the President of the Senate and attested to and a copy thereof transmitted by the Clerk of the Senate.

By: President of the Senate, Stanley C. Rosenberg
Attest: Clerk of the Senate, William F. Welch • Offered by: State Senator, Virato M. DeMacedo

Date: June 20, 2017

Board Member Marc N. Hanover then read into the record a citation from Governor Charles D. Baker and Lieutenant Governor Karen E. Polito:

On behalf of the citizens of the Commonwealth of Massachusetts, I am pleased to confer upon you this Governor's Citation in recognition of your 48 years of dedicated and distinguished service as an employee of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority which includes 22 years as Treasurer/Comptroller and 13 years as General Manager.

The Authority experienced unprecedented improvements in ferry service for the traveling public while you were at the helm.

This twentieth day of June in the Year 2017

Charles D. Baker, Governor • Karyn E. Polito, Lieutenant Governor

To conclude the meeting, Mr. Lamson addressed the attendees and said:

"I just want to thank everyone on the Board for all of their support and their confidence in me, especially over the past 13 years that I have been in this position. Although there has been some turnover on the Board over that period, I am so grateful for how we have been able to work so well together and over those years to keep constantly improving almost every aspect of our operations.

I will miss working with all of you, the Board, the Port Council, the senior staff, and all of the employees. I wish you all the best, fair winds and following seas."

NEW LEADERSHIP AT THE HELM

On July 1, 2017, Robert B. Davis assumed the role of general manager. Mr. Davis was first hired as an auditor by the Steamship Authority in 1986, became the chief auditor/office manager in 1995, the assistant treasurer in 1997 and was promoted to the position of treasurer/comptroller in 2005. He received his bachelor's degree in business administration from the University of Dayton in 1981. He also attended that institution's graduate school of business.

In May, the Authority Board approved the hiring of Gerard J. Murphy to serve as the Authority's next treasurer/comptroller, beginning on July 1, 2017 when Mr. Davis assumed the position of general manager. Mr. Murphy spent two years as the State of New Hampshire's state comptroller and, prior to having ultimate responsibility for directing the State's accounting functions, Mr. Murphy had served in several other positions in the State of New Hampshire government since 2006, including being a financial analyst for the State's Department of Transportation, budget officer for the State Legislature, the governor's budget director, and then the State's financial reporting administrator.

M/V IYANOUGH

At 9:35 p.m. on June 16, 2017, the *M/V Iyanough* had an allision with the Hyannis Harbor breakwater while the vessel was traveling from Nantucket to Hyannis on its last trip of the day. There were 48 passengers, six crew members and three food-service workers on board the vessel at the time of the incident.

The U.S. Coast Guard hoisted five injured passengers off of the ferry, as well as 10 others who could not walk over the breakwater. The remaining passengers and crew were taken off the ferry to shore by boat. Local rescue personnel indicated 15 people were brought to Cape Cod Hospital with injuries, none of which were described as life-threatening.

Preliminary findings of the investigation indicated that the captain of the vessel mistook the metal pole at the end of the breakwater and two sailboats located on the other side of the jetty as three buoys that mark the main entrance into the main Hyannis channel. At the time, the breakwater itself was not visible on the radar due to waves obscuring the image, and the distances and the positions of the pole and sailboats matched identically the pattern normally associated with the three buoys.

Despite the impact of the allision, the *M/V Iyanough*'s fuel tanks remained intact and there was no environmental damage as a result of the incident. The vessel was freed from the breakwater the following morning, and it proceeded under its own power, first to the Hyannis terminal and, later the same day, to the Fairhaven shipyard for inspection and repair.

The vessel returned to service just a month later, on July 18, 2017, much more quickly than the Authority thought possible. In the interim, the Steamship Authority provided fast ferry service on the weekends through a charter of the *M/V Wall Street* and *M/V Martha's Vineyard Express*, both vessels that are owned by SeaStreak. Hy-Line also modified its schedule to meet customer demand.

The Steamship Authority extends its gratitude to Fairhaven Shipyard (and Kevin McLaughlin), Gladding Hearn Shipbuilding (and the Duclos family), Tucker Roy Marine Towing (and Conrad Roy), Frogman Divers, AGM Marine Contractors, Bardwell Electronics, Total Welding Supply, Fabco Engineering, Surfaceworx, Pierce Aluminum and Downwind Dockside Service for their hard work in getting the vessel back in service in such a timely manner.

The Steamship Authority also thanks its personnel, including the *M/V Iyanough* crew members assigned to the vessel during its repair, the maintenance staff, Captain Bruce Malenfant, Chief Engineer John Burke, Port Engineer Stephen Clifford, Port Captain Charles G. Gifford and Director of Engineering and Maintenance Carl R. Walker for their efforts.

The Authority also extends its gratitude to the U.S. Coast Guard, all of the local first responders, the crew of the helicopter from Air Station Cape Cod and the *M/V Iyanough*'s crew and passengers who made the ferry's evacuation safe and orderly under adverse conditions. Our concerns are first and foremost for the safety and well-being of our passengers and crew, and we deeply appreciate the efforts of all who guided them safely to shore.

SCHEDULE CHANGES FURTHER ADDRESS EARLY-MORNING NOISE AT WOODS HOLE TERMINAL

The Steamship Authority continued to examine ways it could modify its operations at the Woods Hole terminal in response to complaints from the neighbors about the noise during the early-morning hours related to trucks being loaded onto one of the Authority's boats.

The Authority continued to limit the times of the year it operated its 5:30 a.m. freight boat from Woods Hole, ending the trip on October 27 instead of running it through the end of the year, as it did in 2015, or through December 7, as it did in in 2016. In its 2018 schedules, the Authority proposed, and the Board approved, to run the trip through October 22, again limiting the early-morning freight boat to the high-demand summer schedule only.

Additionally, the *M/V Sankaty* was assigned to provide service during the peak summer schedule (June 19 through September 7, 2018), with three scheduled round trips each weekday between Woods Hole and Vineyard Haven, which will allow the Authority to no longer designate the *M/V Governor* trips at 5:30 a.m. and 7:30 a.m. from Woods Hole and at 8:35 a.m. and 11:05 a.m. from Vineyard Haven as hazardous cargo trips on weekdays. Instead, the *M/V Sankaty* trips at 6:45 a.m. from Woods Hole and 10:15 a.m. from Vineyard Haven on weekdays will be designated as hazardous cargo trips.

That change allowed the Authority to limit the size of trucks that would utilize the 5:30 a.m. boat from Woods Hole to less than 40 feet in length. The limitation was anticipated to result in substantially less noise being generated by the trucks that drive to the Woods Hole terminal in the early-morning hours. Authority staff members continued to work with its freight shippers participating in the bulk reservation program, including requesting that their drivers not exceed the speed limit on any road in Falmouth or to drive no faster than 35 mph, whichever is lower, to further reduce truck noise.

SCHOOL STREET PARKING LOT IMPROVEMENTS

In November, the Authority's Board awarded a $134,377 contract to Edward Paige Corp. of Norwell, Massachusetts, for site work improvements to the Authority's School Street parking lot next to the Hyannis terminal. Under the contract, the contractor was to install a new storm water management system, a new gravel base, bituminous pavement, pavement markings and curbing, as well as new lighting, fencing and landscaping. After the work is finished, the Authority will have 13 more parking spaces at this location.

CONCESSIONS CONTRACT RENEWED

Centerplate, formerly known as Boston Concessions Group and then Boston Culinary Group, was awarded a five-year contract in November 2017 to continue as the Authority's food concessionaire, a role the company has held since 1993. Following a request for proposals (RFP) from food concessionaires in early 2017, Centerplate was the only firm that submitted a proposal for the third time over the past 15 years.

Centerplate has served the Authority well over the years, and its proposal was rated as being "highly advantageous" by the RFP evaluation committee with respect to its background, operating experience and proposed operating plan.

M/V MARTHA'S VINEYARD MID-LIFE REFURBISHMENT

In February 2017, the Authority awarded a contract for the mid-life refurbishment of the *M/V Martha's Vineyard* to Senesco Marine LLC, of North Kingston, Rhode Island, for a total contract price of $16,967,150.

The Authority's Board later awarded a $135,000 contract to Marine Systems Corporation to have Captain Edward Jackson be the Authority's on-site owner's representative for the project.

The vessel left the Authority's Fairhaven Maintenance Facility on September 7, 2017, for Senesco Marine's shipyard facility in Quonset Point, Rhode Island. Upon arrival, Senseco crews immediately began cutting off the cabins, seats, bulkheads and pilot house, along with removing the bow and stern doors and generators, switchboard and reduction gears. The vessel was scheduled to return to the Authority's personnel on January 31, 2018, for another month of work in Fairhaven before returning to service.

The scope of the project included, among other items:

- ✓ extending the 02 passenger cabin to enclose the aft stair towers;
- ✓ creating a center island for the Purser's office, restrooms and food concession area;
- ✓ removing and replacing all of the joiner work in the passenger cabins on the 02 and mezzanine decks;
- ✓ upgrading the HVAC system;
- ✓ upgrading the bow door;
- ✓ installing a stern roller curtain door;
- ✓ upgrading crew accommodations;
- ✓ replacing the ship's switchboard and emergency switchboard;
- ✓ installing a third ship-service generator;
- ✓ installing an additional elevator on the port side of the mezzanine deck to the 02 passenger deck;
- ✓ replacing all exterior windows;
- ✓ relocating and replacing the rescue boat and davit;
- ✓ sandblasting and recoating all exterior surfaces and the freight deck;
- ✓ water blasting and recoating the void spaces as necessary;
- ✓ installing a new Marine Evacuation Slide (MES) system;
- ✓ upgrading the steering system controls;
- ✓ replacing steel plating as necessary;
- ✓ modifying the pilothouse; and
- ✓ increasing interior and exterior passenger seating on the vessel.

LICENSE AGREEMENTS RENEWED WITH PRIVATE FERRY OPERATORS

In October, the Authority's Board approved three-year renewals of all the Authority's license agreements with its currently licensed private ferry operators. The renewals included the following passenger-only ferry services:

- The service by Cape and Islands Transport, Inc., d/b/a Falmouth-Edgartown Ferry, between Falmouth and Martha's Vineyard (Edgartown);
- The service by Freedom Cruise Line, Inc. between Harwichport and Nantucket;
- The services by Hyannis Harbor Tours, Inc., d/b/a Hy-Line Cruises, between Hyannis and Nantucket, between Hyannis and Martha's Vineyard (Oak Bluffs), and between Nantucket and Martha's Vineyard (Oak Bluffs); and
- The services by SeaStreak LLC between New Bedford and Martha's Vineyard (Oak Bluffs) and between New Bedford and Nantucket.

The renewals were approved after advertisements were placed in all of the local newspapers asking for public comment and two public hearings were held at Authority Board meetings. Ultimately, no public comments were received regarding the renewals.

AUTHORITY HIRES CONSULTANT FOR MUNICIPAL SOLID WASTE STUDY

Although a prior study on the question of barging municipal solid waste from Vineyard Haven to New Bedford concluded that such an operation was unfeasible, those studies were found to have made incorrect assumptions of some aspects of the barging operations. Accordingly, the Steamship Authority hired Tetra Tech as a consultant to help explore the possibility of barging municipal solid waste from Martha's Vineyard to New Bedford.

There are several potential benefits to such an operation, including fewer trash trucks on Falmouth's roads and the opportunity for Packer Marine to backhaul its bulk freight trips to the island with baled trash moving off-island. Potential downsides include fewer trash trucks on the Authority's ferries, which could affect revenues, as well as the economic effects on truck drivers who now transport the waste.

Tetra Tech staff made site visits to the Oak Bluffs Transfer Station and Packer Marine's Vineyard Haven facilities to discuss the logistics of such an operation and requested information from the towns of Oak Bluffs and Tisbury, along with several private carriers, to perform its study, which was ongoing at the end of 2017.

EMBARKATION FEES COLLECTED ON BEHALF OF THE PORT COMMUNITIES

The Authority collected town-mandated ferry embarkation fees totaling $991,596 from passengers traveling on its vessels during 2017.

A state law passed in 2003 allows any city or town in Barnstable, Dukes, Nantucket and Bristol counties to accept a provision that requires the Authority and certain other private ferry operators to impose a 50-cent-per-person ferry embarkation fee for travel originating from its community. The law exempts specific passengers from the town-mandated fee, including certain island residents traveling at excursion rates, commuters using ticket books and those traveling in school-related groups. The law also exempts passengers carried on ferry boats that are licensed by the United States Coast Guard to transport not more than 100 passengers.

The fees collected under the statute by the various ferry operators are distributed to the respective municipalities through the Massachusetts Department of Revenue. The statute requires each city or town to deposit the monies received into a special fund "to be solely appropriated for the purpose of mitigating the impacts of ferry service on the city or town. Monies deposited may be appropriated for services including, but not limited to, providing harbor services, public safety protection, emergency services or infrastructure improvements within and around the harbor."

The ferry embarkation fees collected by the Authority were distributed through the Massachusetts Department of Revenue to the following port towns that have accepted the provisions of the statute:

	2017	TOTAL 2004–2017
BARNSTABLE *	$ 81,407	$ 1,131,471
FALMOUTH	389,542	5,018,541
NANTUCKET	107,076	1,497,334
OAK BLUFFS	131,818	1,463,051
TISBURY	254,617	3,486,351
YARMOUTH **	27,136	377,157

** 75% of fees collected from passengers departing from the town of Barnstable*

*** 25% of fees collected from passengers departing from the town of Yarmouth*

By the end of 2017, a total of $12,973,905 in ferry embarkation fees had been collected from passengers traveling on the Authority's vessels and distributed to the Authority's port towns over the last 14 years pursuant to the provisions of chapter 46 of the Acts of 2003, as amended by chapter 55 of the Acts of 2003 and chapter 65 of the Acts of 2004.

2017 YEARS OF SERVICE AWARDS

Employees are the lifeblood at any company, and the Steamship Authority is particularly lucky to have such a strong contingent of staff who have chosen to share their talents with us and our customers. We recognize these employees who celebrated service anniversaries in 2017 and wish fair winds and following seas to those who retired.

20 YEARS

Sean Burke
Shirley Delucca
William Duane
Carol Eldridge
William Goyette
Walter Jacobson
Mark Jardin
Laura Kelly
Robert Malavase
William Mayo
Philip Rabesa
Peter Riley
Sonia Simoneau
Curtis Van Riper
Douglas Varano
Kevin Varricchio
Lawrence Worthington

25 YEARS

Richard Boswell
Scott Goulding
Oscar Lopez
Peter Midurski
Steven Sayers
John Soares
Donna St. John
Kathleen Stacy
Stephanie Teller

30 YEARS

Stephen Ames
Robert Barrett III
Albert Brox II
John Kamataris
Stephen Lopes
Heather Mackey
Michael Murphy
Joseph Nickowal
Lawrence Pallatroni
Bernardino Ramos

35 YEARS

Joseph Frisino III
Barry Fuller Jr.
William Hibbard
Joseph Keefe III
Melissa Murner
Kevin Radford
Kevin Smith
Robert Sylvia Jr.

40 YEARS

Michael Dawicki
Bruce Malenfant
James Sepanara
Brendan Smith
Ryan Young

45 YEARS

Robert Buckley
Catherine Malone

2017 RETIREMENTS

Joseph Dooley, 22 years
Kathleen Walters, 22 years
Robert Whelan, 22 years
Edward Ben David Sr., 23 years
William Kolb, 23 years
Thomas Reilly, 24 years
David Pollitt, 26 years
George Grace, 27 years
Edward Holt Jr., 27 years
Michael Murphy, 30 years
Lawrence Pallatroni, 30 years
Jane Dorsey, 32 years
William Hibbard, 35 years
Kevin Smith, 35 years
Maurice Gosselin, 36 years
Robert Buckley, 45 years
Wayne Lamson, 48 years

A WORD OF THANKS TO OUR EMPLOYEES

Even with 2017 marking one of the most challenging incidents to occur in the Steamship Authority's history, the continued dedication and commitment of the Authority's employees enabled us to maintain safe and reliable ferry service for the islands of Martha's Vineyard and Nantucket.

As it has in years past, the Authority engaged an outside research firm to conduct a survey of our customers so that we would have a better understanding of their perception of our operations. On a scale of 1 to 10, with 1 being "not at all likely" and 10 being "very likely," 77% of our customers who were surveyed gave us a 9 or 10 rating in response to being asked how likely they would be to recommend us to a friend, compared to 78% in 2016 and 70% in 2015, and 94% rated the Authority between a 7 and 10, the same percentages as in 2016 and 2015. Overall, 88% of travelers rated their overall passenger experience as "very good" or "excellent," roughly the same number as in 2016.

These positive results from our customer survey are a direct reflection on the collective dedication of the men and women of the Authority. We thank each of our employees for their efforts to continuously improve the overall level of customer service and for contributing to another successful year.

TRAFFIC STATISTICS

Passengers Carried

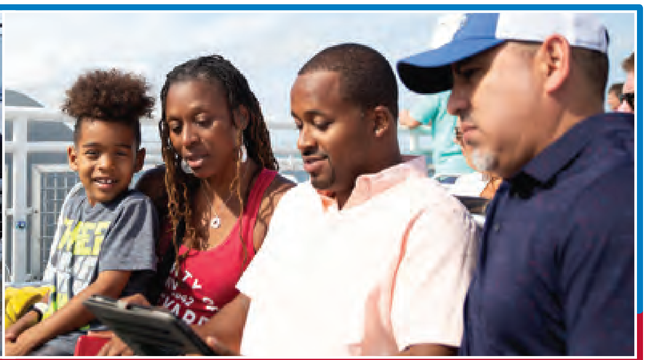
Number of passengers carried from each port during 2017.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		921,841	309,205		
VINEYARD HAVEN	937,272				
OAK BLUFFS	298,230				
NANTUCKET					295,699
HYANNIS				296,802	
TOTAL: 2017	1,235,502	921,841	309,205	296,802	295,699
TOTAL: 2016	1,234,654	939,277	292,826	333,240	327,307
CHANGE:	0.1%	-1.9%	5.6%	-10.9%	-9.7 %

Passengers Carried and Revenue - 2017 vs. 2016

	NUMBER OF PASSENGERS			TICKETED REVENUE FROM PASSENGERS CARRIED*			AVERAGE REVENUE PER PASSENGER		
MONTH	2016	2017	CHANGE	2016	2017	CHANGE	2016	2017	CHANGE
JANUARY	114,683	115,333	0.6%	$ 933,141	$ 936,821	0.4%	$ 8.14	$ 8.12	-0.2%
FEBRUARY	104,494	103,861	-0.6%	833,907	819,546	-1.7%	7.98	7.89	-1.1%
MARCH	130,505	120,872	-7.4%	1,046,464	983,878	-6.0%	8.02	8.14	1.5%
APRIL	185,330	199,140	7.5%	1,759,624	2,037,249	15.8%	9.49	10.23	7.8%
MAY	288,863	283,282	-1.9%	3,124,831	3,031,140	-3.0%	10.82	10.70	-1.1%
JUNE	346,631	334,141	-3.6%	3,726,074	3,309,573	-11.2%	10.75	9.90	-7.9%
JULY	503,565	466,429	-7.4%	5,555,947	4,527,957	-18.5%	11.03	9.71	-12.0%
AUGUST	503,239	498,235	-1.0%	5,560,950	5,298,995	-4.7%	11.05	10.64	-3.7%
SEPTEMBER	343,569	319,418	-7.0%	3,680,019	3,449,604	-6.3%	10.71	10.80	0.8%
OCTOBER	264,043	274,912	4.1%	2,757,638	2,897,107	5.1%	10.44	10.54	1.0%
NOVEMBER	179,606	183,154	2.0%	1,903,721	1,950,500	2.5%	10.60	10.65	0.5%
DECEMBER	162,776	160,272	-1.5%	1,777,633	1,713,449	-3.6%	10.92	10.69	-2.1%
TOTAL	**3,127,304**	**3,059,049**	**-2.2%**	**$ 32,659,949**	**$ 30,955,819**	**-5.2%**	**$ 10.44**	**$ 10.12**	**-3.1%**

*Ticketed revenue from passengers carried differs from passenger revenue in the financial statements due to classification and timing differences.



Automobiles Carried

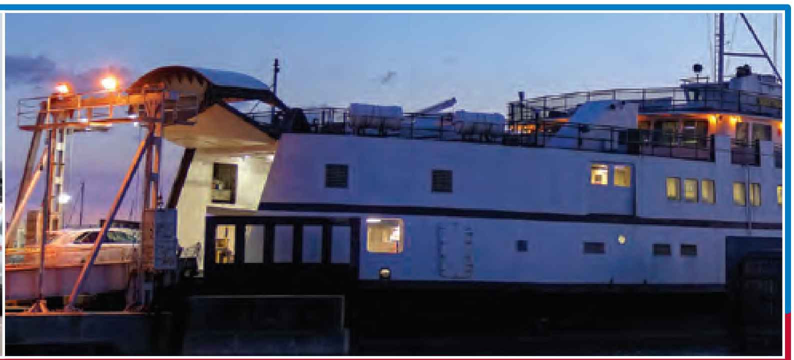
Number of automobiles carried from each port during 2017.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		171,730	35,569		
VINEYARD HAVEN	168,336				
OAK BLUFFS	40,118				
NANTUCKET					33,239
HYANNIS				32,433	
TOTAL: 2017	208,454	171,730	35,569	32,433	33,239
TOTAL: 2016	208,560	171,896	35,087	33,120	34,036
CHANGE:	-0.1%	-0.1%	1.4%	-2.1%	-2.3%

Automobiles Carried and Revenue - 2017 vs. 2016

	NUMBER OF AUTOMOBILES			TICKETED REVENUE FROM AUTOMOBILES CARRIED*			AVERAGE REVENUE PER AUTOMOBILE		
MONTH	2016	2017	CHANGE	2016	2017	CHANGE	2016	2017	CHANGE
JANUARY	22,315	22,920	2.7%	$ 722,950	$ 738,037	2.1%	$ 32.40	$ 32.20	-0.6%
FEBRUARY	21,578	20,722	-4.0%	678,050	658,207	-2.9%	31.42	31.76	1.1%
MARCH	26,319	25,192	-4.3%	900,654	836,153	-7.2%	34.22	33.19	-3.0%
APRIL	32,264	34,279	6.2%	1,669,211	1,794,636	7.5%	51.74	52.35	1.2%
MAY	42,089	42,773	1.6%	2,705,243	2,741,616	1.3%	64.27	64.10	-0.3%
JUNE	50,701	51,636	1.8%	3,879,453	3,891,320	0.3%	76.52	75.36	-1.5%
JULY	64,303	64,004	-0.5%	5,489,114	5,363,688	-2.3%	85.36	83.80	-1.8%
AUGUST	65,287	65,252	-0.1%	5,606,586	5,503,124	-1.8%	85.88	84.34	-1.8%
SEPTEMBER	51,960	47,234	-9.1%	3,802,100	3,474,980	-8.6%	73.17	73.57	0.5%
OCTOBER	41,235	42,354	2.7%	2,446,690	2,483,290	1.5%	59.34	58.63	-1.2%
NOVEMBER	34,019	34,348	1.0%	1,269,833	1,286,161	1.3%	37.33	37.45	0.3%
DECEMBER	30,629	30,711	0.3%	1,065,544	1,062,231	-0.3%	34.79	34.59	-0.6%
TOTAL	**482,699**	**481,425**	**-0.3%**	**$ 30,235,428**	**$ 29,833,443**	**-1.3%**	**$ 62.64**	**$ 61.97**	**-1.1%**

*Ticketed revenue from automobiles carried differs from automobile revenue in the financial statements due to classification and timing differences.



TRAFFIC STATISTICS *(continued)*

Trucks Carried

Number of trucks carried from each port during 2017.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:					
WOODS HOLE		60,266	7,696		
VINEYARD HAVEN	61,281				
OAK BLUFFS	7,463				
NANTUCKET					26,670
HYANNIS				26,012	
TOTAL: 2017	68,744	60,266	7,696	26,012	26,670
TOTAL: 2016	66,132	57,763	7,690	24,959	25,555
CHANGE:	3.9%	4.3%	0.1%	4.2%	4.4%

Trucks Carried and Revenue - 2017 vs. 2016

	NUMBER OF TRUCKS			TICKETED REVENUE FROM TRUCKS CARRIED*			AVERAGE REVENUE PER TRUCK		
MONTH	2016	2017	CHANGE	2016	2017	CHANGE	2016	2017	CHANGE
JANUARY	11,419	12,267	7.4%	$ 1,476,412	$ 1,644,605	11.4%	$ 129.29	$ 134.07	3.7%
FEBRUARY	11,179	11,429	2.2%	1,496,487	1,553,453	3.8%	133.87	135.92	1.5%
MARCH	14,995	14,547	-3.0%	2,011,533	1,966,560	-2.2%	134.15	135.19	0.8%
APRIL	16,317	17,115	4.9%	2,442,199	2,541,985	4.1%	149.67	148.52	-0.8%
MAY	18,201	19,586	7.6%	2,855,051	3,011,351	5.5%	156.86	153.75	-2.0%
JUNE	18,105	18,981	4.8%	2,968,291	3,103,406	4.6%	163.95	163.50	-0.3%
JULY	16,513	17,002	3.0%	2,809,183	2,882,686	2.6%	170.12	169.55	-0.3%
AUGUST	15,940	16,819	5.5%	2,780,643	2,902,999	4.4%	174.44	172.60	-1.1%
SEPTEMBER	15,899	15,227	-4.2%	2,436,838	2,338,456	-4.0%	153.27	153.57	0.2%
OCTOBER	15,444	17,316	12.1%	2,179,385	2,446,665	12.3%	141.12	141.30	0.1%
NOVEMBER	14,595	15,266	4.6%	1,865,725	1,981,901	6.2%	127.83	129.82	1.6%
DECEMBER	13,492	13,833	2.5%	1,753,121	1,806,393	3.0%	129.94	130.59	0.5%
TOTAL	**182,099**	**189,388**	**4.0%**	**$ 27,074,868**	**$ 28,180,460**	**4.1%**	**$ 148.68**	**$ 148.80**	**0.1%**

* Ticketed revenue from trucks carried differs from freight revenue in the financial statements due to classification and timing differences.

A 10-YEAR TRAFFIC HISTORY

Passengers Carried

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2008	2,174,185	517,846	**2,692,031**
2009	2,179,567	513,611	**2,693,178**
2010	2,213,800	522,347	**2,736,147**
2011	2,189,530	522,517	**2,712,047**
2012	2,244,441	558,539	**2,802,980**
2013	2,263,708	582,983	**2,846,691**
2014	2,287,999	605,852	**2,893,851**
2015	2,378,303	644,787	**3,023,090**
2016	2,466,757	660,547	**3,127,304**
2017	2,466,548	592,501	**3,059,049**

Vehicles Under 20' in Length Carried

(including automobiles, pickup trucks, vans, etc.)

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2008	434,246	84,554	**518,800**
2009	440,058	81,212	**521,270**
2010	445,662	81,789	**527,451**
2011	446,360	80,180	**526,540**
2012	455,894	80,551	**536,445**
2013	462,148	79,928	**542,076**
2014	466,900	82,308	**549,208**
2015	475,286	84,215	**559,501**
2016	496,785	86,086	**582,871**
2017	500,154	85,418	**585,575**

Vehicles 20' and Over in Length Carried

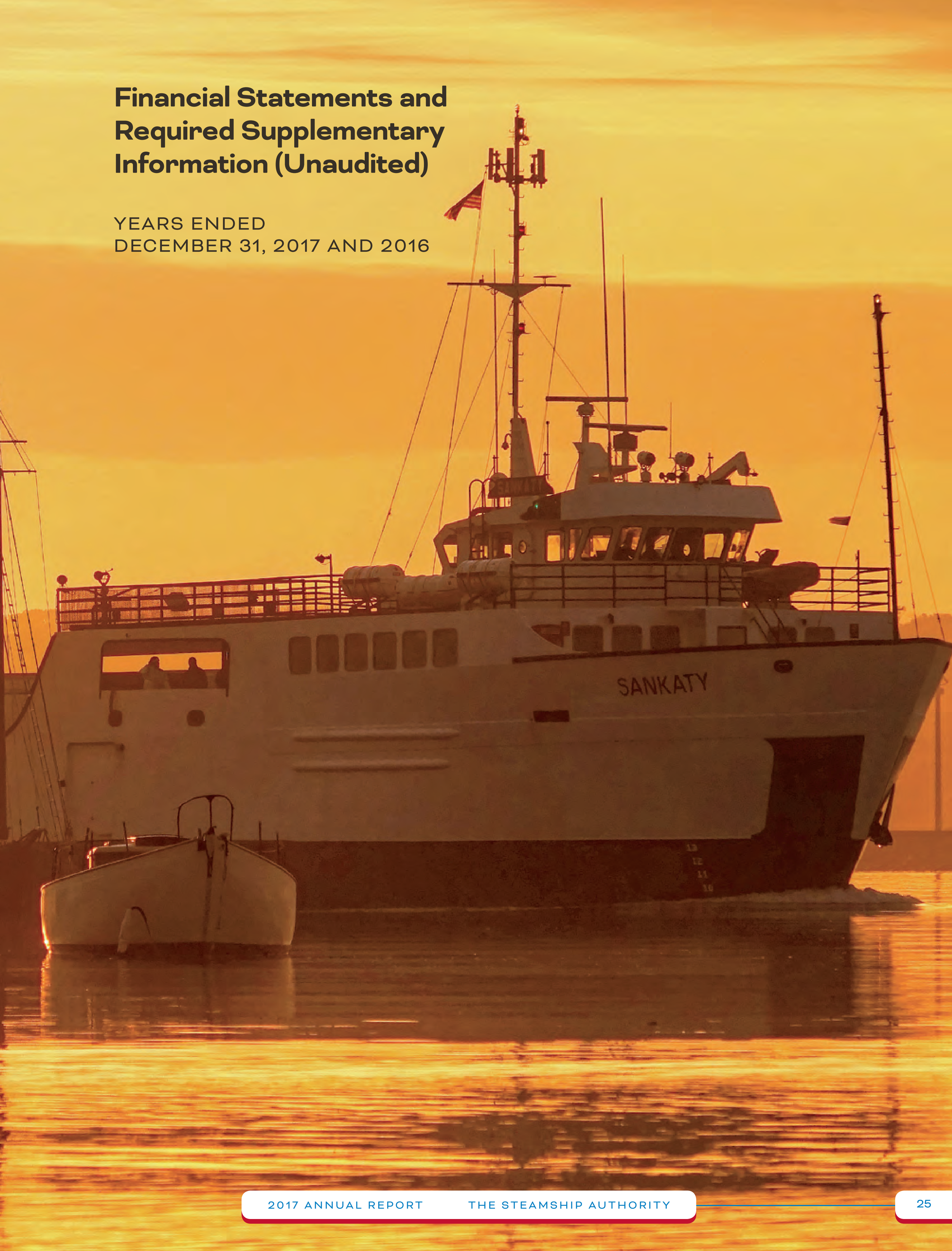
(including trucks, trailers, buses, campers, etc.)

	MARTHA'S VINEYARD	NANTUCKET	TOTAL
2008	47,335	28,615	**75,950**
2009	44,246	24,137	**68,383**
2010	44,467	23,233	**67,700**
2011	44,037	23,524	**67,561**
2012	42,617	24,545	**67,162**
2013	45,638	26,720	**72,358**
2014	47,344	27,707	**75,051**
2015	49,069	29,588	**78,657**
2016	50,343	31,584	**81,927**
2017	52,305	32,936	**82,241**


Gordon

Financial Statements and Required Supplementary Information (Unaudited)

YEARS ENDED
DECEMBER 31, 2017 AND 2016



INDEPENDENT AUDITORS' REPORT

RSM

RSM US LLP

To the Woods Hole, Martha's Vineyard and
Nantucket Steamship Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the Authority), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority'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 Authority'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 respective financial position of the business-type activities of the Authority, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability, the Other Postemployment Benefit Schedule Funding Progress, and the Schedule of Employer Contributions* as listed in the table of contents, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
May 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

As management of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the Authority or Steamship Authority), we offer readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2017 and 2016. The Steamship Authority is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the Act), "in order to provide adequate transportation of persons and necessaries of life for the islands of Nantucket and Martha's Vineyard".

Overview of the Financial Statements

This overview and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special-purpose governmental entity engaged in only business-type activities. As such, its financial statements consist of only those required for enterprise funds and the related notes. The Authority's financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. In addition to the basic financial statements, this report includes notes to the financial statements and also contains required supplementary information (RSI) pertaining to the pension plans and the other postemployment benefit plan (OPEB) of the Authority.

The statements of net position report assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position consists of three sections: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of the net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position is unrestricted.

The statements of revenues, expenses and changes in net position report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the year with the difference, the net income or loss, being combined with any capital grants and contributions, income from special-purpose restricted funds, and special items to determine the change in net position for the year. That change combined with the net position at the end of the previous year reconciles to the net position at the end of the current year.

The statements of cash flows report cash and cash equivalent activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net results of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The basic financial statements can be found on pages 42-74 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain RSI. RSI contains data related to the Authority's defined benefit pension plan, OPEB plan provided to its employees, and contributions made to the multiemployer plans. The RSI can be found on pages 75-76 of this report.

Condensed Financial Information

Condensed financial information from the statements of net position and the statements of revenues, expenses and changes in net position for the years ended December 31, are as follows:

	2017	2016	2015
Current assets	$ 22,156,785	$ 18,629,422	$ 21,360,053
Special-purpose restricted funds	38,811,941	43,932,247	50,954,358
Capital assets, net	183,033,512	163,848,715	150,713,497
Total assets	244,002,238	226,410,384	223,027,908
Deferred outflows of resources	4,204,187	4,953,909	3,191,908
Total assets and deferred outflows of resources	**$ 248,206,425**	**$ 231,364,293**	**$ 226,219,816**
Current liabilities	$ 14,278,931	$ 13,325,150	$ 14,177,505
Liabilities payable from special-purpose restricted funds	7,955,583	6,765,160	6,615,632
Noncurrent liabilities	99,443,026	94,721,425	100,020,043
Total liabilities	121,677,540	114,811,735	120,813,180
Deferred inflows of resources	911,006	1,238,810	493,117
Net position:			
Net investment in capital assets	105,700,370	91,642,338	89,365,763
Restricted	35,380,566	41,324,128	30,804,316
Unrestricted deficit	(15,463,057)	(17,652,718)	(15,256,560)
Total net position	125,617,879	115,313,748	104,913,519
Total liabilities, deferred inflows of resources, and net position	**$ 248,206,425**	**$ 231,364,293**	**$ 226,219,816**
Total operating revenues	$ 102,911,758	$ 103,896,139	$ 100,056,787
Total operating expenses	(95,018,138)	(93,751,455)	(88,313,623)
Operating income	**7,893,620**	**10,144,684**	**11,743,164**
Nonoperating (expenses) revenues:			
Interest on bonds and other obligations	(3,155,449)	(2,687,224)	(2,357,137)
Miscellaneous revenue	3,347,832	2,616,813	2,206,799
Miscellaneous expense	(90,035)	(118,851)	(289,955)
Nonoperating (expenses) revenues	102,348	(189,262)	(440,293)
Income before capital grants and contributions and income from special-purpose restricted funds	7,995,968	9,955,422	11,302,871
Capital grants and contributions	1,832,879	205,270	1,247,901
Income from special-purpose restricted funds	475,284	239,537	95,234
Change in net position	**10,304,131**	**10,400,229**	**12,646,006**
Net position, beginning of year	**115,313,748**	**104,913,519**	**92,267,513**
Net position, end of year	**$ 125,617,879**	**$ 115,313,748**	**$ 104,913,519**

FINANCIAL ANALYSIS

Comparison of Financial Condition at December 31, 2017 and 2016

The Authority's total assets and liabilities were $244,002,238 and $121,677,540, respectively, as of December 31, 2017, as compared to $226,410,384 and $114,811,735, respectively, at December 31, 2016. The Authority's deferred outflows of resources were $4,204,187 and $4,953,909, for the years ended December 31, 2017 and 2016, respectively. The Authority's deferred inflows of resources were $911,006 and $1,238,810, for the years ended December 31, 2017 and 2016, respectively. The net position as of December 31, 2017, was $125,617,879, an 8.9% increase from the prior fiscal year-end.

The increase in total net position was $10,304,131 for the year ended December 31, 2017, down $96,098 from the $10,400,229 increase in total net position posted in 2016. Income before capital grants and contributions and income from special-purpose restricted funds in 2017 decreased $1,959,454, or 19.7%, compared to the prior year.

The decrease in income before capital grants and contributions and income from special-purpose restricted funds was attributed to a $984,381, or 0.9% decrease in the Authority's total operating revenues and a $1,266,683, or 1.4% increase in the Authority's total operating expenses. Total nonoperating revenue increased by $291,610. These changes are discussed in greater detail in the following sections.

During 2017, the Steamship Authority was awarded grants under the Port Security Program and from the Federal Emergency Management Agency (FEMA) Public Assistance (PA) Program. The Steamship Authority also entered into a memorandum of understanding with the Cape Cod Regional Transit Authority (CCRTA) through which the CCRTA has agreed to contribute funds from the Federal Transit Administration's Urbanized Area Formula Grant Funds to the Steamship Authority. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

The Steamship Authority's total operating revenues in 2017 were $102,911,758. Total operating revenues decreased by $984,381 or 0.9% for the year ended December 31, 2017.

The number of passengers carried decreased by 68,255 or 2.2% in 2017 from 2016. Ridership on the conventional service decreased by 17,247 riders or 0.6%, while passenger traffic carried on the *M/V Iyanough* decreased by 51,008 passengers or 14.4% for the year as compared to 2016. In addition, the average revenue per passenger decreased from $10.63 in 2016 to $10.31 in 2017, due mostly to the proportionally sharper decrease in riders on the fast ferry service. Total passenger revenues in 2017 were $31,527,306, a decrease of 5.1% versus the previous year.

The number of automobiles carried decreased by 1,274 or 0.3% in 2017 versus 2016. The average revenue per automobile decreased from $62.53 in 2016 to $61.93 in 2017, due in part to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the increase in ridership during the off-season. Total automobile revenues in 2017 were $29,814,553, a decrease of 1.2% versus the previous year.

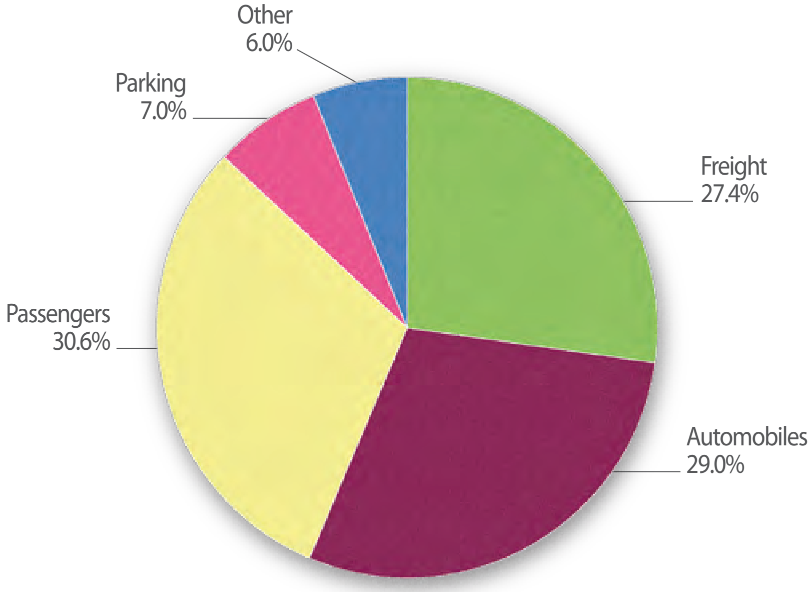
The number of trucks carried increased by 1,985 or 1.1% in 2017 from 2016 traffic levels. The average revenue per truck increased from $149.09 in 2016 to $153.44 during 2017, due in part to an overall increase in trucks carried to Nantucket and Martha's Vineyard as well as the increase in ridership during the off-season. Total freight revenues in 2017 were $28,246,478, an increase of 4.0% versus the previous year.

FINANCIAL ANALYSIS ... continued
Operating Revenues ... continued

Parking revenue in 2017 decreased by $248,939 from 2016, primarily as a result of a decrease in cars parked at the Hyannis area lots. The total number of cars parked decreased by 5,944 or 3.1% versus 2016. Total parking revenues in 2017 were $7,149,115, a decrease of 3.4% versus the previous year.

Other miscellaneous operating revenues increased by $239,356 or 4.0% in 2017, primarily due to increases in cancellation penalties and miscellaneous driver service charges.

The major sources of operating revenues for the year ended December 31, 2017, were as follows:



FINANCIAL ANALYSIS ... continued

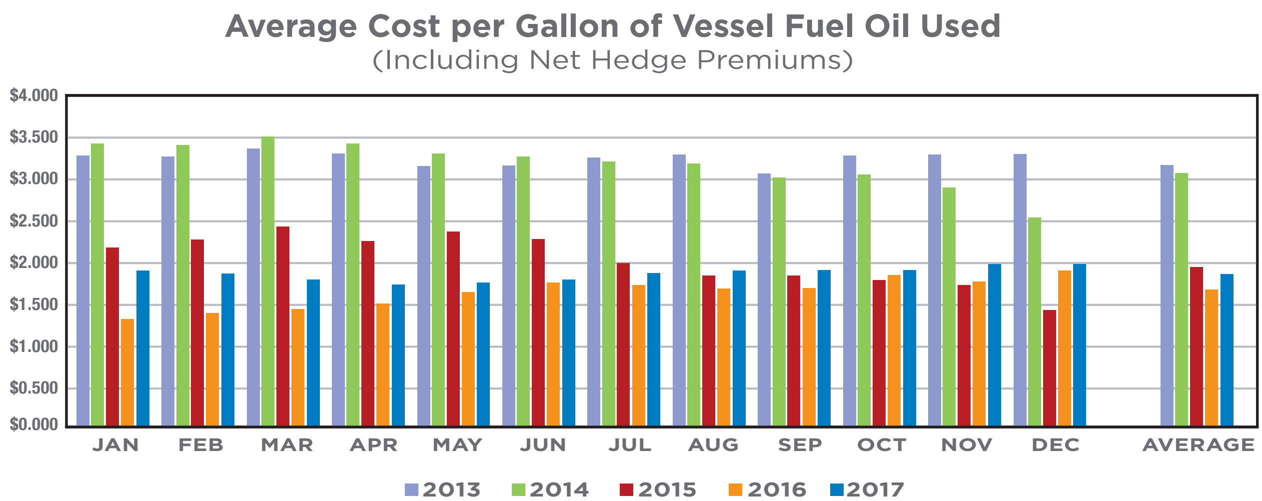
Operating Expenses

The Authority's total operating expenses in 2017 were $95,018,138; in 2016, total operating expenses were $93,751,455. Total operating expenses in 2017 were $1,266,683, or 1.4% higher than the previous year. Decreases in maintenance expense were offset by higher wages and benefits, vessel fuel oil costs, depreciation expense, rents, utilities, and other expense, compared to the prior year.

Maintenance expense decreased in 2017 versus 2016 by $3,108,513, or 16.5%. The decrease was primarily attributable to vessel dry-dock expense decreases of $1,128,232; decreases in dolphin and dock work of $1,167,543; life raft renewal decreases of $373,334; and engine parts and engine repairs expense decreases of $552,336.

Depreciation and amortization expense increased in 2017 versus 2016 by $165,673 or 1.5%. The increase is attributable to the addition of a full year of depreciation for the *M/V Woods Hole*.

Vessel operating expenses increased by $1,273,310 or 6.1% versus 2016 expenses. Vessel payroll expense in 2017 increased by $373,879 or 2.5% versus 2016 payroll expense. Vessel fuel oil expense of $5,789,610 was $822,143 or 16.6% higher in 2017 than in 2016. The average cost per gallon of fuel used operating, including hedge costs, in 2017 was $1.892, which represents an increase of 13.9% over the average cost per gallon of fuel used operating in 2016 of $1.661. In 2017, the Steamship Authority's vessels consumed approximately 3,067,000 gallons of fuel, an increase of 2.5% versus 2016.



During 2017, the Authority operated 22,843 vessel trips, which represented an increase of 140 trips, or 0.6% versus 2016.

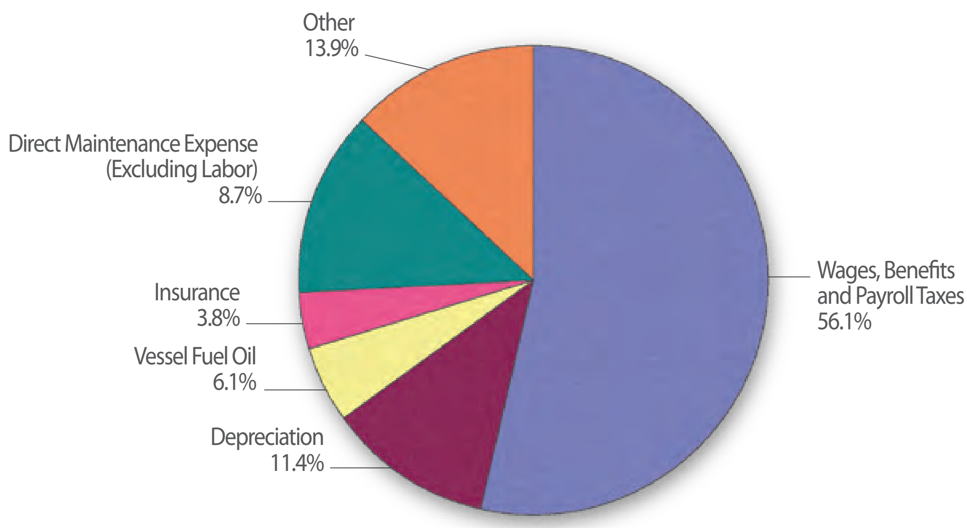
FINANCIAL ANALYSIS ... continued
Operating Expenses ... continued

Expenses related to Terminal Operations increased in 2017 versus 2016 by $755,289 or 6.7%. This increase was primarily attributed to a 7.5% or $679,000 increase in payroll costs.

Expenses to operate Reservations and Customer Service decreased in 2017 versus 2016 by $119,695 or 3.8%. This decrease was attributed to lower advertising expense of $81,000 or 6.0% and lower payroll expense of $16,000 or 1.1%.

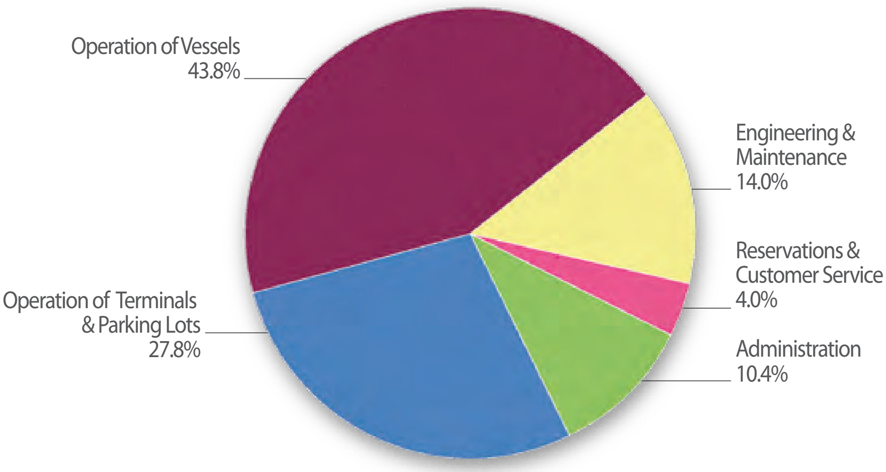
General expense in 2017 increased by $2,300,619 or 7.9% versus 2016. In 2017, administration payroll expense increased by $378,000 or 11.6% versus 2016. Overall pension expense increased by $510,000 or 7.8% versus 2016. Health care costs, principally for the vessel groups, increased by $612,000 or 8.7%; unemployment contributions decreased by $34,000 or 4.9%; long-term disability expense increased by $51,000 or 9.7%; while credit card processing expenses increased by $2,000 versus the prior year.

The major sources of operating expenses for the year ended December 31, 2017, were as follows:



FINANCIAL ANALYSIS ... continued
Operating Expenses ... continued

56.1% of the Authority's operating expenses in 2017 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2017 was distributed to the following functions:



Nonoperating Revenues (Expenses)

The Authority's total nonoperating revenue in 2017 was $102,348, which was an increase of $291,610 over the total nonoperating expense of $189,262 in 2016. Expenses for interest on bonds and other obligations of $3,155,449 in 2017 was an increase of $468,225 over the $2,687,224 in 2016. Miscellaneous revenue of $3,347,832 in 2017 increased by $731,019 over 2016, due mostly to an increase in license income, while miscellaneous expenses in 2017 decreased by $28,816 as compared to 2016.

FINANCIAL ANALYSIS ... continued

Comparison of Financial Condition at December 31, 2016 and 2015

The Authority's total assets and liabilities were $226,410,384 and $114,811,735, respectively, as of December 31, 2016, as compared to $223,027,908 and $120,813,180, respectively, at December 31, 2015. The Authority's deferred outflows of resources were $4,953,909 and $3,191,908, for the years ended December 31, 2016 and 2015, respectively. The Authority's deferred inflows of resources were $1,238,810 and $493,117, for the years ended December 31, 2016 and 2015, respectively. The net position as of December 31, 2016, was $115,313,748, a 9.9% increase from the prior fiscal year-end.

The increase in total net position was $10,400,229 for the year ended December 31, 2016, down from the $12,646,006 increase in total net position posted in 2015. Income before capital grants and contributions and income from special-purpose restricted funds in 2016 decreased $1,347,449, or 11.9%, compared to the prior year.

The decrease in income before capital grants and contributions and income from special-purpose restricted funds was primarily attributed to a $5,437,832, or 6.2% increase in the Authority's total operating expenses. Total operating revenues for the year ended December 31, 2016 increased by $3,839,352, or 3.8% versus the previous year, while nonoperating expenses decreased by $251,031, or 57.0%. These changes are discussed in greater detail in the following sections.

During 2016, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program, the Port Security Program, the Tribal Transportation Program and from the FEMA PA Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

The Steamship Authority's total operating revenues in 2016 were $103,896,139. Total operating revenues increased by $3,839,352 or 3.8% for the year ended December 31, 2016.

The number of passengers carried increased by 104,214 or 3.4% in 2016 from 2015. Ridership on the conventional service increased by 96,712 riders or 3.6%, while passenger traffic carried on the *M/V Iyanough* increased by 7,502 passengers or 2.2% for the year as compared to 2015. In addition, the average revenue per passenger decreased from $10.68 in 2015 to $10.63 in 2016, due in part to the increase in riders on the traditional service as well as the increased usage of discounted books. Total passenger revenues in 2016 were $33,232,039, an increase of 2.9% versus the previous year.

The number of automobiles carried increased by 17,402 or 3.7% in 2016 versus 2015. The average revenue per automobile decreased from $63.12 in 2015 to $62.53 in 2016, due in part to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes as well as the increase in ridership during the off-season. Total automobile revenues in 2016 were $30,181,713, an increase of 2.8% versus the previous year.

The number of trucks carried increased by 9,238 or 5.3% in 2016 from 2015 traffic levels. The average revenue per truck decreased from $149.75 in 2015 to $149.09 during 2016, due in part to an overall increase in trucks carried to Nantucket and Martha's Vineyard as well as the increase in ridership during the off-season. Total freight revenues in 2016 were $27,149,383, an increase of 4.9% versus the previous year.

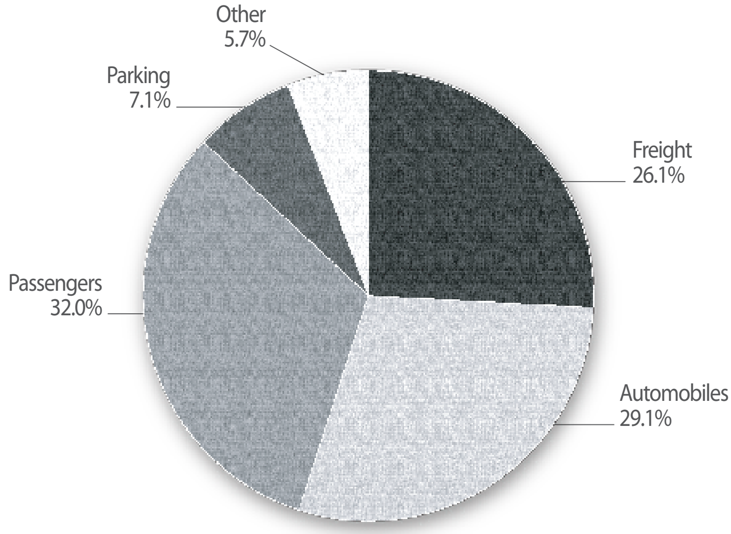
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

FINANCIAL ANALYSIS ... continued
Operating Revenues ... continued

Parking revenue in 2016 increased by $458,460 from 2015, primarily as a result of an increase in cars parked at the Falmouth and Hyannis area lots. The total number of cars parked increased by 6,500 or 3.5% versus 2015. Total parking revenues in 2016 were $7,398,054, an increase of 6.6% versus the previous year.

Other miscellaneous operating revenues increased by $357,410 or 6.4% in 2016, primarily due to increases in cancellation penalties and miscellaneous driver service charges.

The major sources of operating revenues for the year ended December 31, 2016, were as follows:



FINANCIAL ANALYSIS ... continued

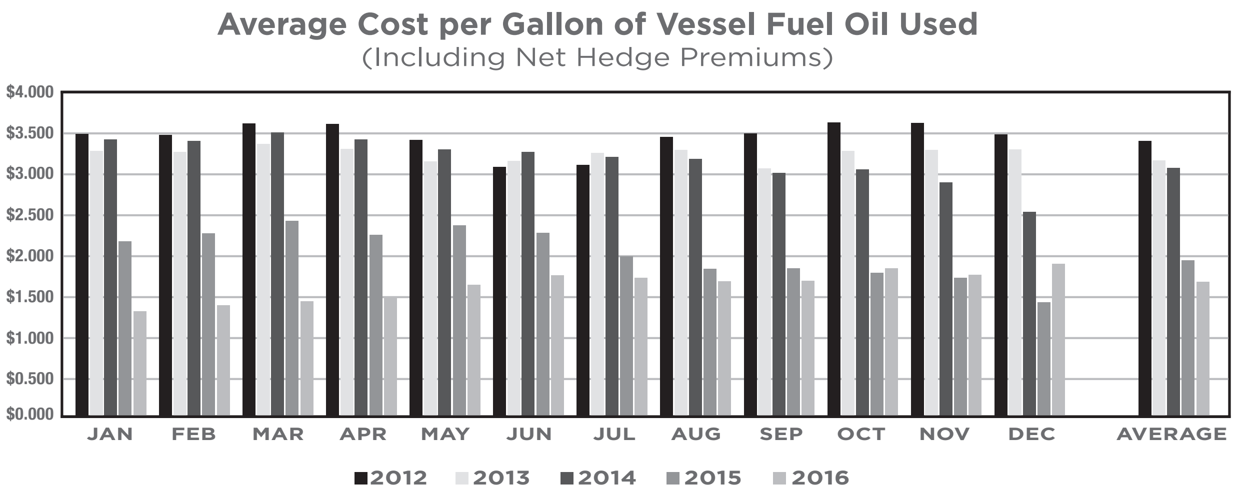
Operating Expenses

The Authority's total operating expenses in 2016 were $93,751,455; in 2015, total operating expenses were $88,313,623. Total operating expenses in 2016 were $5,437,832, or 6.2% higher than the previous year. Decreases in vessel fuel oil costs were offset by higher maintenance expense, wages and benefits, depreciation expense, advertising, rents, and insurance expense, compared to the prior year.

Maintenance expense increased in 2016 versus 2015 by $1,828,933, or 10.7%. The increase was primarily attributable to vessel dry-dock expense increases of $438,316; life raft renewal increases of $261,373; engine parts and engine repairs expense increases of $177,719; terminal and equipment repairs increases of $201,632; vessel repair expense increases of $725,077; combined with decreases in dolphin and dock work of $466,208.

Depreciation and amortization expense increased in 2016 versus 2015 by $527,949, or 5.2%. This increase was primarily attributable to the addition of a full year's depreciation for the Thomas B. Landers Parking Facility and a partial year's depreciation for the *M/V Woods Hole*.

Vessel operating expenses increased by $120,617, or 0.6% versus 2015. This increase was chiefly due to higher vessel payroll expense. In 2016, vessel payroll expense increased by $684,342 or 4.8% versus 2015 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $4,967,467, which was $650,501 or 11.6% lower in 2016 than in 2015. The average cost per gallon of fuel used operating in 2016 was $1.661, which represents a decrease of 15.5% over the average cost per gallon of fuel used in 2015 of $1.965.



During 2016, the Authority operated 22,703 vessel trips, which represented an increase of 266 trips, or 1.2% versus 2015.

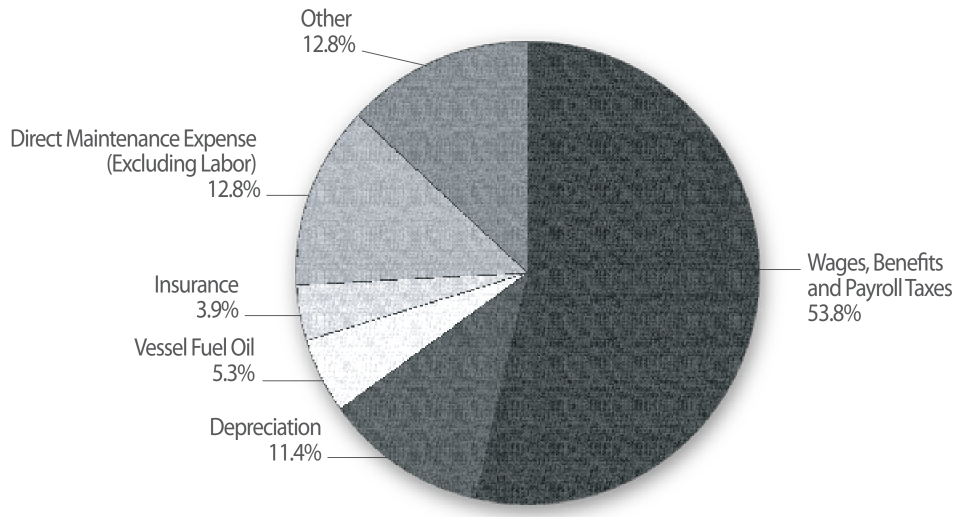
FINANCIAL ANALYSIS ... continued
Operating Expenses ... continued

Expenses related to the Operation of Terminals and Parking Lots increased in 2016 versus 2015 by $360,017, or 3.3%. This increase was primarily attributed to a 4.3% or $369,189 increase in payroll costs; a $39,415 or 16.2% decrease in water expenses; and an $11,519 or 4.1% decrease in gas and electric costs.

Expenses to operate Reservations and Customer Service increased in 2016 versus 2015 by $306,108, or 10.7%. This increase was primarily attributed to higher advertising expense and other traffic expense of $179,570 or 12.8% along with a $122,930 or 9.4% increase in payroll expense.

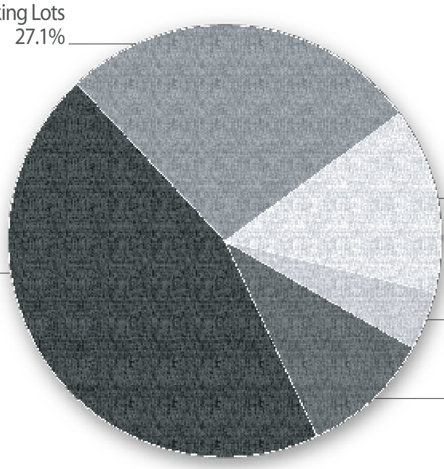
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by $1,831,228 in 2016, or 9.1% versus 2015. Increases in pension expense of $816,728 or 14.3%; health care expense of $534,099 or 8.3%; credit card processing fees of $109,203 or 5.8%; and payroll expense of $231,604 or 7.7% were partially offset by decreases of $116,932 or 14.4% in unemployment contributions.

The major sources of operating expenses for the year ended December 31, 2016, were as follows:



FINANCIAL ANALYSIS ... continued
Operating Expenses ... continued

53.8% of the Authority's operating expenses in 2016 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2016 was distributed to the following functions:



Special-Purpose Restricted Funds and Fund Transfers in 2017

The Authority's Enabling Act requires revenue derived from its operation to be set aside each month in a specific order and in amounts as follows:

(1) to the Sinking Fund, an amount sufficient to provide for the payment of the interest on and for the amortization and payment of the principal of all bonds as the same shall become due and payable;

(2) to the Bond Redemption Fund, all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued;

(3) to the Property Replacement Fund, such amount as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed, or abandoned, and for improvements to, and acquisitions of, real and personal property (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);

(4) to the Reserve Fund, an amount sufficient to maintain the fund at a level equal to the greater of 5% of the principal amount of all bonds outstanding, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and

(5) to the Operations Fund, an amount sufficient to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month, and to maintain working capital for such purposes in an amount not to exceed one thirty-sixth of the operating budget for the then-current fiscal year.

The Authority's Sinking Fund balance at December 31, 2017, was $8,510,755, including income from investments of $70,900 during 2017. The Authority's cash flow during 2017 allowed for transfers to be made to the Sinking Fund to meet the scheduled bond interest payment of $1,545,314 on September 1, 2017, and to provide for the payment of bond interest and principal due on March 1, 2018, in the amount of $1,588,325 and $6,885,000, respectively.

FINANCIAL ANALYSIS ... continued
Special-Purpose Restricted Funds and Fund Transfers in 2017 ... continued

At December 31, 2017, the Property Replacement Fund balance was $9,683,515, including income earned from investments of $178,159 during 2017.

In addition, $10,689,753 was transferred from the Operations Fund to the Property Replacement Fund, an increase of $527,948 over the previous year's transfers. Disbursements from the Property Replacement Fund in 2017, totaling $18,384,724, were comprised of the following:

M/V Martha's Vineyard mid-life refurbishment	$ 10,999,359
Design and engineering for the Woods Hole Terminal Reconstruction	3,049,393
Woods Hole Temporary Terminal Building	2,666,121
Various Hardware and Software Upgrades	744,041
Servers for New Administration Building	388,888
Storage Containers	93,017
Parking Lot Access and Control Equipment	93,333
Hyannis Terminal Gangway	83,618
Other miscellaneous projects under $50,000, individually	266,954

The Authority's Reserve Fund balance at December 31, 2017, was $3,562,986, including income from investments of $40,235 during 2017. $207,251 was transferred from the Reserve Fund to the Bond Redemption Fund during 2017.

The Authority's Capital Improvement Fund balance as of December 31, 2017, was $2,360,790, including income from investments of $82,299 and proceeds from the 2017 Series A bond issue of $12,772,041. During 2017, disbursements from the Capital Improvement Fund totaled $12,141,509. Fund disbursements in 2017 were for the construction of the *M/V Woods Hole* and for the building in Falmouth. Unexpended proceeds from Steamship Bonds are reported as assets of the Capital Improvement Fund.

The Bond Redemption Fund balance was $14,693,895 at December 31, 2017, including income from investments of $174,591 during 2017.

Investment income from the special-purpose restricted funds amounted to $475,284 during 2017, excluding income from investments in the Sinking Fund of $70,900.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets as of December 31, 2017, amounted to $183,033,512, net of accumulated depreciation. The Authority's investment in capital assets includes vessels, buildings and structures, office and terminal equipment, motor vehicles, land, leasehold improvements, and construction projects in progress. During 2017, the Authority invested $1,281,461 in various capital assets and an additional $28,811,895 was invested in construction projects in progress. Capital asset additions were funded through the Authority's Operations Fund and special-purpose restricted funds.

More detailed information regarding the Authority's capital assets activities for 2017 can be found in the notes to the financial statements (Note 2).

Capital Assets and Debt Administration ... continued

Debt Administration

The Authority is currently authorized under the provisions of the Enabling Act, as amended, to issue bonds in an amount not to exceed $100,000,000 outstanding at any one time. The Authority's Enabling Act further provides that if at any time any principal or interest is due or about to become due on the Authority's bonds and the funds to pay the same are not available, the Authority shall certify to the State Treasurer the amount required to meet such obligations and the Commonwealth of Massachusetts (the Commonwealth) shall pay over to the Authority the amount so certified. In the opinion of the Authority's bond counsel, the obligation of the Commonwealth to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is pledged to make such payment. The Commonwealth has never been called upon to make payments to the Authority to meet such obligations under the provisions of the Enabling Act.

The Authority made scheduled principal payments of $5,805,000 during 2017. Also, in March of 2017, the Authority received $12,792,428 of proceeds from its 2017 Series A bond issuance, with a principal amount of $11,060,000 and a premium of $1,732,428. In 2016, the Authority made scheduled principal payments of $5,585,000. The total amount of bonds outstanding, net of unamortized premiums of $7,823,671, was $71,565,000 as of December 31, 2017.

More detailed information regarding the Authority's debt administration activities for 2017 can be found in the notes to the financial statements (Note 3).

ECONOMIC FACTORS

The Authority's traffic statistics for the past five years are as follows:

	2013	2014	2015	2016	2017
Passengers	2,846,691	2,893,851	3,023,090	3,127,304	3,059,049
Automobiles	452,286	457,682	465,297	482,699	481,425
Trucks	162,148	166,577	172,861	182,099	189,388
Cars parked	169,616	172,499	183,526	190,026	184,084
Trips made	22,050	22,107	22,437	22,703	22,843
Nautical Miles	326,968	327,292	333,034	337,560	335,622

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

REQUESTS FOR INFORMATION

This report is intended to provide an overview of the Authority's financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to the Authority's Treasurer/Comptroller, P.O. Box 284, Woods Hole, MA 02543.

Statements of Net Position
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,555,464	$ 13,254,046
Receivables, net	1,665,741	1,456,462
Grants receivable	1,828,512	343,199
Inventories	632,680	565,320
Prepaid insurance and other	3,014,767	2,408,547
Prepaid fuel hedge	459,621	601,848
TOTAL CURRENT ASSETS	**22,156,785**	18,629,422
SPECIAL-PURPOSE RESTRICTED FUNDS:		
Cash and cash equivalents:		
Sinking fund:		
Current bond maturities and interest	8,510,755	7,249,157
Redemption of bonds	14,693,895	14,519,306
Property replacement fund	9,683,515	17,200,325
Reserve fund	3,562,986	3,315,500
Capital improvement fund	2,360,790	1,647,959
TOTAL SPECIAL-PURPOSE RESTRICTED FUNDS	**38,811,941**	43,932,247
CAPITAL ASSETS:		
Vessels	159,778,596	117,887,695
Terminal buildings and equipment	111,022,213	112,563,936
Land and land improvements	28,591,269	28,591,269
Construction in progress	34,162,905	47,210,079
Less - accumulated depreciation	(150,521,471)	(142,404,264)
TOTAL CAPITAL ASSETS, NET	**183,033,512**	163,848,715
TOTAL ASSETS	**244,002,238**	226,410,384
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflow on pensions	4,204,187	4,953,909
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**4,204,187**	4,953,909
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 248,206,425**	$ 231,364,293

See notes to financial statements.

Statements of Net Position
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
CURRENT LIABILITIES:		
Accounts payable	$ 5,011,255	$ 4,452,006
Accrued wages, vacation pay and expenses	4,355,835	4,274,802
Unearned revenue	4,411,557	4,116,731
Pension withdrawal obligation	500,284	481,611
TOTAL CURRENT LIABILITIES	**14,278,931**	13,325,150
LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS:		
Accrued interest on Steamship Bonds	1,070,583	960,160
Current portion of long-term debt	6,885,000	5,805,000
TOTAL LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS	**7,955,583**	6,765,160
NONCURRENT LIABILITIES:		
Long-term debt, net of current portion	72,503,671	67,650,146
Net pension liabilities	12,975,052	12,664,394
Other postemployment benefits	1,120,969	1,063,267
Pension withdrawal obligations	12,843,334	13,343,618
TOTAL NONCURRENT LIABILITIES	**99,443,026**	94,721,425
TOTAL LIABILITIES	**121,677,540**	114,811,735
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflow from advance refunding	305,263	399,190
Deferred inflow on pensions	605,743	839,620
TOTAL DEFERRED INFLOWS OF RESOURCES	**911,006**	1,238,810
NET POSITION:		
Net investment in capital assets	105,700,370	91,642,338
Restricted	35,380,556	41,324,128
Unrestricted deficit	(15,463,057)	(17,652,718)
TOTAL NET POSITION	**125,617,879**	115,313,748
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 248,206,425**	$ 231,364,293

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Passenger	$ 31,527,306	$ 33,232,039
Automobile	29,814,553	30,181,713
Freight	28,246,478	27,149,383
Parking	7,149,115	7,398,054
Other	6,174,306	5,934,950
TOTAL OPERATING REVENUES	**102,911,758**	103,896,139
OPERATING EXPENSES:		
Operation of vessels	22,134,613	20,861,303
Operation of terminals and parking lots	11,962,589	11,207,300
Maintenance	15,771,744	18,880,257
Reservations, advertising, and other traffic	3,046,770	3,166,465
Depreciation and amortization	10,855,427	10,689,754
General and administrative	31,246,995	28,946,376
TOTAL OPERATING EXPENSES	**95,018,138**	93,751,455
OPERATING INCOME	**7,893,620**	10,144,684
NONOPERATING REVENUES (EXPENSES):		
Interest on bonds and other obligations	(3,155,449)	(2,687,224)
Miscellaneous revenue	3,347,832	2,616,813
Miscellaneous expense	(90,035)	(118,851)
TOTAL NONOPERATING REVENUES (EXPENSES)	**102,348**	(189,262)
Income before capital grants and contributions and income from special-purpose restricted funds	7,995,968	9,955,422
Capital grants and contributions	1,832,879	205,270
Income from special-purpose restricted funds	475,284	239,537
CHANGE IN NET POSITION	**10,304,131**	10,400,229
NET POSITION, Beginning of year	**115,313,748**	104,913,519
NET POSITION, End of year	**$125,617,879**	$ 115,313,748

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments from customers	$ 102,895,591	$ 104,140,017
Payments to employees for services	(35,198,465)	(32,739,135)
Payments to suppliers and contractors	(48,795,510)	(51,133,512)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**18,901,616**	20,267,370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Principal payments on withdrawal obligations	(481,611)	(463,635)
Receipts from other funds and license activities	2,152,575	1,386,781
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**1,670,964**	923,146
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on Steamship Bonds	(5,805,000)	(5,585,000)
Proceeds from capital debt	12,792,428	-
Interest paid	(2,526,637)	(2,221,331)
Interest paid on withdrawal liability	(518,389)	(536,365)
Proceeds from sales of capital assets	54,197	125,278
Capital expenditures	(29,268,532)	(23,298,990)
Capital grant received	347,567	205,979
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(24,924,366)**	(31,310,429)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	57,614	25,572
Interest from special-purpose restricted funds	475,284	239,537
NET CASH PROVIDED BY INVESTING ACTIVITIES	**532,898**	265,109
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,818,888)**	(9,854,804)
CASH AND CASH EQUIVALENTS, Beginning of year	**57,186,293**	67,041,097
CASH AND CASH EQUIVALENTS, End of year	**$ 53,367,405**	$ 57,186,293
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 7,893,620	$ 10,144,684
Depreciation and amortization	10,855,427	10,689,754
Changes in assets and liabilities:		
Receivables	(310,569)	(81,114)
Inventories	(67,360)	(38,059)
Prepaid insurance and other and prepaid fuel hedge	(463,993)	48,140
Accounts payable	(265,573)	(2,278,333)
Accrued wages, vacation pay, and expenses	81,033	456,158
Other postemployment benefits	57,702	23,186
Net pension obligations	826,503	976,307
Unearned revenue	294,826	326,647
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 18,901,616**	$ 20,267,370

Supplemental disclosure of noncash transactions:

At December 31, 2017 and 2016, the Authority had capital expenditures in the amount of $1,645,314 and $820,492, respectively, that were included in accounts payable.

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the Authority) is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the Act). The Authority has no stockholders or equity holders.

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) codification section 2100, is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose governmental entity engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation, parking, and other services are provided. Unearned revenue represents cash received in advance of future service.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period, and as such will not be recognized as an outflow of resources (expense) until that time. These items are reported as a category below the assets on the Statements of Net Position.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and as such will not be recognized as an inflow of resources (revenue) until that time. These items are reported as a category below the liabilities on the Statements of Net Position.

The Authority has the following items that qualify for reporting as deferred outflows of resources or deferred inflows of resources:

- For current refundings, resulting in defeasance of debt reported by business-type activities, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or new debt, whichever is shorter. The Authority reports its gain or loss on advance refundings within these categories.
- For amounts not recognized in pension expense due to difference between the measurement date and the fiscal year end date are noted as deferred inflows and/or outflows from pensions.

Net Position

Net position represents the residual interest in the Authority's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources and consists of: (1) net investment in capital assets, (2) amounts restricted, and (3) amounts that are unrestricted. Net investment in capital assets consists of capital assets reduced by accumulated depreciation, deferred inflow due to advance refunding, and by any outstanding debt incurred to acquire, construct or improve those assets. Net position is reported as restricted when there are third party limitations (statutory, contractual or bond covenant) on its use. Unrestricted net position consists of all net position that does not meet the definition of either of the other two components.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ... continued

Transfers and Use of Funds

The Act and the provisions of the Bond Resolutions with the Authority's bondholders, discussed in more detail in Note 5, govern the disposition of revenue and prescribe certain accounting practices of the Authority, which include the conditions for transfers between the various accounts and the use of such funds. The Act was amended in 1985 to increase the maximum amount of funds allowed in the Operations Fund and Reserve Fund.

Cash and Cash Equivalents

Cash includes cash on hand, amounts in demand deposits and cash equivalents, which are short-term, highly liquid securities with readily determinable market values. For purposes of the accompanying statements of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Authority's investments are reported at fair value using quoted market price or the best available estimate thereof. GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value GAAP hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. As discussed in Note 5, the Authority's investments in 2017 and 2016 qualified to be reported as cash equivalents as the Authority participates in a qualifying external investment pool that measures all of its investments at amortized cost for financial reporting purposes.

Inventories

Inventories of materials and supplies are stated at cost on a first-in, first-out basis.

Capital Assets

Vessels, terminal property, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the related assets. The Authority's capitalization threshold for a single item is $5,000 or $10,000 for a group of items. The estimated service lives are as follows:

Vessels	10–30 years
Buildings and structures:	
Buildings and wharves	30 years
Sheds, fences and pavement	10–20 years
Office and terminal equipment:	
Computer equipment	3–5 years
Other	10 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of lease or estimated useful life

The Authority capitalizes interest costs incurred in the construction of certain qualifying assets. For the years ended December 31, 2017 and 2016, the Authority incurred interest expense from operations of $3,155,449 and $2,687,224, respectively. Capitalized interest was $419,859 and $701,511 in 2017 and 2016, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ... continued

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The Authority fully reserves for all receivables greater than 90 days. The allowance for doubtful accounts was $50,000 as of December 31, 2017 and 2016.

Unamortized Bond Premiums and Discounts

Discounts of bonds and premiums on bonds are amortized using the straight-line method over the life of the related bond issue since the results are not significantly different from the effective interest method of amortization.

Risk Financing and Related Insurance Issues

The Authority is self-insured with respect to medical benefits provided to certain employees and retirees. With respect to these medical benefits, the Authority purchases stop-loss insurance, which covers all incurred claims in excess of approximately $2,100,000 in the aggregate; up to a maximum aggregate benefit payment of $1,000,000 per person per year. The Authority purchases commercial insurance to cover all other risks of loss. During the current and previous three years, there have been no settlements in excess of insurance coverage maintained by the Authority.

Accrued Sick Leave and Vacation

Employees are granted sick leave and vacation in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick leave and vacation (subject to certain limitations) at their then-current rates of pay. The accumulated amount of sick and vacation leave is recorded as an expense and liability as the benefits accrue to employees.

Operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses in its statement of revenues, expenses and changes in net position. Operating revenues consists of those revenues earned from customers for passage of vehicles and passengers, from parking operations and ancillary activities such as concessions and driver services.

Operating expenses relate to the cost of providing those services and also include administration expenses and depreciation of capital assets. All other revenues and expenses that are not a direct result of the Authority's functions are considered nonoperating. Examples of nonoperating items include investment earnings, interest expense, gains and losses on the disposal of capital assets and licensing fees.

Unearned Revenue

Unearned revenue consists primarily of fares received from customers for future reservations. Such amounts are recognized as revenue in subsequent periods as they are earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ... continued

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant use of estimates includes assumptions related to the valuation of the OPEB and pension plans, the accrual for claims to be submitted under the Authority's self-funded health insurance, and the allowance for uncollectible accounts.

Adoption of New Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement improves the usefulness of information about postemployment benefits other than pensions included in external financial reports of state and local government OPEB plans. The Statement requires enhanced note disclosures and schedules of supplementary information to be presented by OPEB plans that are administered through trusts. The Authority implemented this standard during fiscal year 2017. The implementation of GASB Statement No. 74 did not have a material impact on the Authority's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of component units incorporated as not-for-profit corporations in which the primary government is the sole corporate member. The Authority implemented this standard during fiscal year 2017. The implementation of GASB Statement No. 80 did not have a material impact on the Authority's financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority implemented this standard during fiscal year 2017. The implementation of GASB Statement No. 81 did not have a material impact on the Authority's financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Authority implemented this statement during fiscal year 2017 and the disclosures related to this statement can be found in the required supplementary information.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ... continued
Adoption of New Accounting Pronouncements ... continued

The GASB has issued the following statements, which require adoption subsequent to December 31, 2017, and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the fiscal practices and financial reports are being evaluated.

GASB STATEMENT NO.		ADOPTION REQUIRED IN FISCAL YEAR
75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	2018
83	*Certain Asset Retirement Obligations*	2019
84	*Fiduciary Activities*	2019
85	*Omnibus 2017*	2018
86	*Certain Debt Extinguishment Issues*	2018
87	*Leases*	2020
88	*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*	2019

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 27,112,044	$ -	$ -	$ 27,112,044
Construction in progress	47,210,079	28,811,892	(41,859,066)	34,162,905
Total capital assets, not being depreciated	74,322,123	28,811,892	(41,859,066)	61,274,949
Capital assets, being depreciated:				
Vessels	117,887,695	31,835	41,859,066	159,778,596
Buildings and structures	95,200,553	83,621	(2,574,735)	92,709,439
Office and terminal equipment	12,776,869	1,132,328	(216,616)	13,692,581
Motor vehicles	4,586,514	33,680	-	4,620,194
Leasehold improvements	1,479,225	-	-	1,479,225
Total capital assets, being depreciated	231,930,856	1,281,464	39,067,715	272,280,035
Less accumulated depreciation for:				
Vessels	(81,573,415)	(6,015,879)	-	(87,589,294)
Buildings and structures	(46,795,206)	(3,432,340)	2,523,036	(47,704,510)
Office and terminal equipment	(10,271,299)	(981,880)	215,183	(11,037,996)
Motor vehicles	(2,285,119)	(425,327)	-	(2,710,446)
Leasehold improvements	(1,479,225)	-	-	(1,479,225)
Total accumulated depreciation	(142,404,264)	(10,855,426)	2,738,219	(150,521,471)
Total capital assets, being depreciated, net	89,526,592	(9,573,962)	41,805,934	121,758,564
Total capital assets, net	**$ 163,848,715**	**$ 19,237,930**	**$ (53,132)**	**$ 183,033,513**

Capital asset activity for the year ended December 31, 2016, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 27,112,044	$ -	$ -	$ 27,112,044
Construction in progress	35,350,994	22,147,083	(10,287,998)	47,210,079
Total capital assets, not being depreciated	62,463,038	22,147,083	(10,287,998)	74,322,123
Capital assets, being depreciated:				
Vessels	117,669,895	217,800	-	117,887,695
Buildings and structures	85,751,450	-	9,449,103	95,200,553
Office and terminal equipment	11,683,832	911,309	181,728	12,776,869
Motor vehicles	4,600,991	647,994	(662,471)	4,586,514
Leasehold improvements	1,479,225	-	-	1,479,225
Total capital assets, being depreciated	221,185,393	1,777,103	8,968,360	231,930,856
Less accumulated depreciation for:				
Vessels	(75,863,172)	(5,710,243)	-	(81,573,415)
Buildings and structures	(43,690,402)	(3,517,321)	412,517	(46,795,206)
Office and terminal equipment	(9,370,421)	(1,046,315)	145,437	(10,271,299)
Motor vehicles	(2,531,714)	(415,875)	662,470	(2,285,119)
Leasehold improvements	(1,479,225)	-	-	(1,479,225)
Total accumulated depreciation	(132,934,934)	(10,689,754)	1,220,424	(142,404,264)
Total capital assets, being depreciated, net	88,250,459	(8,912,651)	10,188,784	89,526,592
Total capital assets, net	**$ 150,713,497**	**$ 13,234,432**	**$ (99,214)**	**$ 163,848,715**

3. STEAMSHIP BONDS OUTSTANDING

The Steamship Bonds outstanding at December 31, are as follows:

	2017	2016
2009 Series A, including unamortized bond premium of $60,277 and $79,312 at December 31, 2017 and 2016, respectively, bearing interest at rates ranging from 2.50% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2021	$ 2,350,278	$ 2,904,312
2009 Series B, including unamortized bond premium of $75,646 and $82,421 at December 31, 2017 and 2016, respectively, bearing interest at rates ranging from 2.00% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2029	7,220,647	7,687,422
2011 Series A, including unamortized bond premium of $94,835 and $136,985 at December 31, 2017 and 2016, respectively, bearing interest at rates ranging from 2.00% to 3.00%, requiring annual payments of principal beginning March 1, 2017 and semiannual interest payments through March 1, 2020	4,594,835	6,136,984
2014 Series A, including unamortized bond premium of $1,425,872 and $1,876,147 at December 31, 2017 and 2016, respectively, bearing interest at rates ranging from 4.00% to 5.00%, requiring annual payments of principal beginning March 1, 2016 and semiannual interest payments through March 1, 2021	15,045,872	18,806,147
2015 Series A, including unamortized bond premium of $4,564,544 and $4,970,281 at December 31, 2017 and 2016, respectively, bearing interest at rates ranging from 3.00% to 5.00%, requiring annual payments of principal beginning March 1, 2021 and semiannual interest payments through March 1, 2029	37,514,544	37,920,281
2017 Series A, including unamortized bond premium of $1,602,497 at December 31, 2017, bearing interest at a rate of 5.00%, requiring annual payments of principal beginning March 1, 2021 and semiannual interest payments through March 1, 2029	12,662,495	-
Total Steamship Bonds	**79,388,671**	73,455,146
Less bonds due within one year	**(6,885,000)**	(5,805,000)
Total Steamship Bonds—excluding current portion	**$ 72,503,671**	$ 67,650,147

3. STEAMSHIP BONDS OUTSTANDING ... continued

2009 Series A Steamship Bonds — On July 21, 2009, the Authority issued $5,000,000 of 2009 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.00%. The proceeds of the bonds were used to refund $5,000,000 in bond anticipation notes, the proceeds of which were used: (i) for the reconstruction and refurbishment of the *M/V Nantucket*, including without limitation the reconstruction of the deck, the reconstruction of the bridge, and the refurbishment of the vessel's seating and eating areas; and (ii) to pay the cost of issuance.

2009 Series B Steamship Bonds — On December 1, 2009, the Authority issued $10,000,000 of 2009 Series B Steamship Bonds with interest rates ranging from 2.00% to 4.00%. The proceeds were used for the following purposes: (i) to acquire four (4) parcels of land located in Falmouth, Massachusetts, for parking and other purposes (Project A); (ii) the reconstruction of vessel berthing slips in Hyannis, Massachusetts, for operational efficiency purposes, including without limitation the reconstruction of dolphins, wharves, and transfer bridge and gangways (Project B and together with Project A, the Projects); and (iii) to pay the cost of issuance.

2011 Series A Steamship Bonds — On December 13, 2011, the Authority issued $6,000,000 of 2011 Series A Steamship Bonds with interest rates ranging from 2.00% to 3.00%. The proceeds of the bonds were used for: (i) the reconstruction and refurbishment of the *M/V Eagle*, including without limitation the replacement of decking, doors and windows; the reconstruction of the snack bar; refurbishment of the vessel's seating and eating areas and the installation of a marine evacuation slide; and (ii) to pay the cost of issuance.

2014 Series A Steamship Bonds — On December 2, 2014, the Authority issued $20,105,000 of 2014 Series A Steamship Bonds with interest rates ranging from 4.00% to 5.00%. The proceeds of the bonds were used to: (i) refund $22,765,000 of the Authority's 2004 Series B Bonds maturing in the years 2016 through 2021; and (ii) to pay the cost of issuance. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 2004 Series B Steamship Bonds. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. Prior refunded obligations outstanding at December 31, 2017 and 2016, totaled $19,195,000 and $22,765,000, respectively.

2015 Series A Steamship Bonds — On May 8, 2015, the Authority issued $32,950,000 of 2015 Series A Steamship Bonds with interest rates ranging from 3.00% to 5.00%. The proceeds of the bonds were used to: (i) construct a new 235-foot passenger and vehicle vessel, the *M/V Woods Hole*, with a capacity of approximately 384 passengers and 50 cars, to replace the Authority's *M/V Governor*; and (ii) to pay the cost of issuance.

2017 Series A Steamship Bonds — On March 29, 2017, the Authority issued $11,060,000 of 2017 Series A Steamship Bonds with an interest rate of 5.00%. The proceeds were used for the following purposes: (i) to construct a new General Administration Office Building; and (ii) to pay the cost of issuance.

3. STEAMSHIP BONDS OUTSTANDING ... continued

Scheduled Debt Service Requirements

The annual scheduled debt service requirements of all Steamship Bonds outstanding at December 31, 2017, are as follows, exclusive of bonds defeased:

YEARS ENDING DECEMBER 31	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL PAYMENTS
2018	$ 6,885,000	$ 3,037,525	$ 9,922,525
2019	7,145,000	2,742,800	9,887,800
2020	7,420,000	2,424,531	9,844,531
2021	7,185,000	2,089,094	9,274,094
2022	4,835,000	1,799,613	6,634,613
2023-2027	27,985,000	5,165,500	33,150,500
2028-2032	10,110,000	341,850	10,451,850
TOTAL	**$ 71,565,000**	**$ 17,600,913**	**$ 89,165,913**

Principal payments reported above are exclusive of the deferred gain arising from prior bond defeasances of $305,263 and unamortized bond premium of $7,823,671.

Bonds payable activity for the year ended December 31, 2017, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 66,310,000	$ 11,060,000	$ (5,805,000)	$ 71,565,000	$ 6,885,000
Issuance premiums	7,145,146	1,602,497	(923,972)	7,823,671	-
	$ 73,455,146	**$ 12,662,497**	**$ (6,728,972)**	**$ 79,388,671**	**$ 6,885,000**

Bonds payable activity for the year ended December 31, 2016, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 71,895,000	$ -	$ (5,585,000)	$ 66,310,000	$ 5,805,000
Issuance premiums	8,079,027	-	(933,881)	7,145,146	-
	$ 79,974,027	**$ -**	**$ (6,518,881)**	**$ 73,455,146**	**$ 5,805,000**

4. LEASE COMMITMENTS

Operating Leases — The Authority has several noncancelable operating lease commitments at December 31, 2017, with terms in excess of one year. Future minimum lease payments under operating leases are as follows:

YEARS ENDING DECEMBER 31	
2018	$ 540,761
2019	390,376
2020	134,588
2021	134,588
2022	97,750
2023–2027	172,208
TOTAL	**$ 1,470,271**

Aggregate rental expense for the years ended December 31, 2017 and 2016, was $1,130,042 and $877,107, respectively.

5. DEPOSITS AND INVESTMENTS

The Steamship Authority's Board has the sole responsibility for establishing and revising investment policy. In June 2003, the Authority adopted a formal investment policy for all of its operations funds and special-purpose restricted funds. In March 2017, the Steamship Authority's Board reaffirmed the investment policy. The investment strategy is to invest substantially in short-term securities. Permitted investments will consist of obligations issued or secured by the U.S. Government or agencies of the U.S. Government and overnight repurchasing agreements with banks or in mutual funds composed of the above types of investments. The Authority can also invest in the Massachusetts Municipal Depository Trust (MMDT or the Trust), a pooled money-market-like investment fund managed by the Commonwealth and established under Massachusetts General Laws, Chapter 29, Section 38A.

Investment options which are offered by MMDT include a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and a Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. The Authority's investment balance with MMDT as of December 31, 2017 and 2016 were solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The cash portfolio also adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. At December 31, 2017 and 2016 the Authority's deposits with MMDT totaled $41,372,426 and $46,463,452, respectively. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

Cash and Cash Equivalents

The total amount of the Authority's cash and cash equivalents at December 31, respectively, are as follows:

	2017	2016
Cash, including trust and custody agreements	$ 11,994,979	$ 10,722,841
MMDT	41,372,426	46,463,452
TOTAL	**$ 53,367,405**	$ 57,186,293

5. DEPOSITS AND INVESTMENTS ... continued

Custodial Credit Risk

Custodial credit risk exists for cash deposits when, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a formal policy with regard to custodial credit risk but generally invests in securities or financial institutions which have either short-term rating of "A" or government securities of "AAA." Bank deposits are Federal Deposit Insurance Corporation or Massachusetts Depositors Insurance Fund insured as of December 31, 2017. Bank trust and custody agreements include Pledged Holdings and Irrevocable Stand-by Letters of Credit issued by the various financial institutions as collateral for the Authority's deposits. The total amounts of Authority deposits in financial institutions, per the bank statements, at December 31, respectively, are as follows:

	2017	2016
Balance per banks	$ 15,442,402	$ 13,885,659
Deposits covered by:		
Federal Depository Insurance Corporation	(1,000,000)	(1,000,000)
Massachusetts Depositors Insurance Fund	(551,535)	(949,156)
Bank trust and custody agreements	(11,327,281)	(9,403,377)
TOTAL UNINSURED AND UNCOLLATERALIZED DEPOSITS	**$ 2,563,586**	$ 2,533,126

Interest Rate Risk and Credit Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Authority does not have a formal policy with regard to interest rate risk. The majority of the Authority's investments are in MMDT, a pooled money-market-like investment fund.

Credit risk exists when there is a possibility that the issuer of an investment may be unable to fulfill its obligations. The Authority does have a formal policy with regard to credit risk. It should be noted, however, that the investment portfolio may be no more than 25% invested in securities of a single issuer, except for obligations of the U.S. Government.

5. DEPOSITS AND INVESTMENTS ... continued
Interest Rate Risk and Credit Risk ... continued

The Authority maintains cash, cash equivalents, and investments available for use by all funds, in the manner provided below, as set forth by the Authority's Enabling Act, as amended.

The revenues derived from the operation of the Steamship Authority are set aside in funds as defined in the Act and provisions of the Board Resolutions. Monies in these funds on the last day of the preceding month shall be transferred:

- ***To the Operations Fund*** — such amount, if available, as may be required to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month and to maintain working capital for such purposes in an amount not to exceed one thirty-sixth of the operating budget for the then-current fiscal year;
- ***To the Sinking Fund*** — such amount, if any, as may be required for the payment of the interest on and the principal of all bonds as the same shall become due and payable;
- ***To the Property Replacement Fund*** — such amount, if any, as may be deemed necessary or advisable for depreciation of property and for obsolescence and losses with respect to property sold, destroyed, or abandoned and for improvements to, and acquisitions of, real and personal property (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);
- ***To the Reserve Fund*** — such amount, if any, as may be required to make the balance therein equal to 5% of the principal amount of all outstanding bonds, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and
- ***To the Bond Redemption Fund*** — all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

6. PENSION PLANS

The Authority provides retirement benefits to its employees through various defined benefit and defined contribution pension plans.

Defined Benefit Pension Plans Sponsored by the Authority

Description of Plans

Nonunion Plan

The Authority has in effect a single employer, defined benefit pension plan established in 1968 for eligible nonunion employees (the "Nonunion Plan"). The Nonunion plan reporting date is February 28th of each year.

Administration of the Plan

The Nonunion Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Nonunion Plan and executes related transactions under custodial agreements with the Nonunion Plan and the Authority. Separate financial statements are not issued for the Nonunion Plan.

Participation and Vesting

Employees not under collective bargaining agreements whose customary employment with the Authority is for at least 30 hours per week and are employed or expected to be employed on a year-round basis may participate in the Nonunion Plan.

Participants' benefits become fully vested after five years of service in the Nonunion Plan. Benefit payments are made to participants of the Nonunion Plan or their beneficiaries in varying amounts according to the provisions of the Nonunion Plan.

Plan Amendment and Termination

The Nonunion Plan may be amended or terminated in whole or in part, at any time by the Authority, provided that no such modification, amendment, or termination shall be made that would deprive a current participant of rights or benefits provided under the Nonunion Plan.

Normal Retirement Benefits

The normal form of retirement benefit is a monthly annuity payable for life with payments guaranteed for five years (optional forms of payment may be elected in advance of retirement), commencing on the normal retirement date. The normal retirement date for participants who joined the Nonunion Plan prior to March 1, 1992, is the earliest of (a) attainment of age 65 and completion of 20 years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 75% of average compensation for the last three years multiplied by an accrued benefit adjustment (as defined in the Nonunion Plan). The normal retirement date for participants who joined the Nonunion Plan on or after March 1, 1992, is the earliest of (a) attainment of age 65 and completion of five years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 2.5% of average compensation multiplied by years of service (maximum of 30 years). The normal retirement date for participants who join the Nonunion Plan on or after March 1, 2011, is the attainment of age 65 and completion of 10 years of service. The amount of benefits is equal to 2.0% of average compensation multiplied by years of service (maximum of 30 years). Average compensation is defined as average monthly pay received during the three-year period preceding the normal retirement date.

6. PENSION PLANS ... continued
Defined Benefit Pension Plans Sponsored by the Authority ... continued
Nonunion Plan ... continued

Participants in the Nonunion Plan prior to March 1, 1992, are entitled to a benefit based upon the greater of the benefits allowed under the plan as it existed prior to March 1, 1992 or the benefits allowed to participants who join on or after March 1, 1992.

Employees Covered by Benefit Terms

At February 28, 2017, the following employees were covered by the benefit terms:

Active plan members	76
Inactive plan members entitled to but not yet receiving benefits	28
Retired plan members or beneficiaries currently receiving benefits	35
TOTAL	**139**

Cost-of-Living Adjustment

As of March 1, 2002, the Nonunion Plan was amended to include an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan. The cost of living increase is based on half of the percentage increase in the consumer price index from year to year with the aggregate cost of living increase not to exceed 50% of the value of the participant's benefit as of the annuity starting date.

As of March 1, 2011, the Nonunion Plan was amended to exclude an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan who became participants on or after March 1, 2011.

Contributions

Employees who become participants in the Nonunion Plan are currently required to contribute 3.0% of salary. The Authority currently contributes 25.0% of annual covered payroll for the Nonunion Plan. For the Plan years ended February 28, 2017 and February 29, 2016, the Authority contributed $1,201,056 and $807,637, respectively towards the Nonunion Plan. For the period March 1, 2017 through December 31, 2017 the Authority contributed $1,356,513 towards the Nonunion Plan. These contributions are recorded as deferred outflow on pensions in the Statements of Net Position.

Disability Benefits

There are no disability benefits payable under the Nonunion Plan.

Early Retirement Benefits

Early retirement benefits are in the same form as normal retirement benefits and commence on the early retirement date. The early retirement date must be within the 10-year period preceding the normal retirement date. Benefits are reduced for each year that the early retirement date precedes the normal retirement date.

6. PENSION PLANS ... continued
Defined Benefit Pension Plans Sponsored by the Authority ... continued
Nonunion Plan ... continued

Investments

Investments are valued as of the measurement date. Investments are in separate accounts held at The Principal Financial Group in commingled pools, rather than individual securities, and are valued at fair market value. Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of Principal Financial Group, has been hired to manage the asset allocation strategy for the Nonunion Plan.

The investment strategy is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment market outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the needs of the Nonunion Plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple investment managers in order to help maximize the plan's return while providing multiple layers of diversification to help minimize risk.

Actuarial Assumptions

VALUATION DATE	ACTUARIAL COST METHOD	ASSET VALUATION METHOD	AMORTIZATION METHOD	AMORTIZATION PERIOD	ASSUMED RATE OF RETURN	INFLATION RATE	SALARY INCREASES
February 28, 2017	Entry Age	Market Value	Level dollar	20-30 years	5.50%	2.00%	S5 + 1.75%
February 29, 2016	Entry Age	Market Value	Level dollar	20-30 years	6.25%	2.25%	S5 + 1.75%
February 28, 2015	Entry Age	Market Value	Level dollar	20-30 years	6.25%	2.25%	S5 + 1.75%

Total mortality rates as of 2007 from SOA RP-2014 study (baseline 2006 table trued up to 2007 with actual improvement rate).

Money-Weighted Rate of Return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period of March 1, 2016 to February 28, 2017 is 12.11%.

6. PENSION PLANS ... continued
Defined Benefit Pension Plans Sponsored by the Authority ... continued
Nonunion Plan ... continued

Expected Rate of Return

The expected long-term return of 5.50% on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2016. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2016 is 20-30 years. In addition to forward-looking models, historical analysis of market data and trends was reflected, as well as the outlook of recognized economists, organizations and consensus CMA from other credible studies.

The plan's target asset allocations, as of February 28, 2017, are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	EXPECTED ARITHMETIC RETURN	EXPECTED GEOMETRIC RETURN
US Equity - Large Cap	25.39%	7.85%	6.50%
US Equity - Mid Cap	2.93%	8.10%	6.50%
US Equity - Small Cap	1.52%	8.55%	6.50%
Non-US Equity	9.47%	8.10%	6.50%
REITs	0.36%	7.95%	6.10%
Real Estate (direct property)	5.39%	5.80%	5.50%
TIPS	0.55%	3.05%	2.85%
Core Bond	49.72%	3.75%	3.60%
High Yield	4.65%	6.70%	6.30%

6. PENSION PLANS ... continued
Defined Benefit Pension Plans Sponsored by the Authority ... continued
Nonunion Plan ... continued

Changes in the Authority's net pension liabilities for the year ending December 31, 2017 are as follows:

	TOTAL PENSION LIABILITY	PLAN FIDUCIARY NET POSITION	NET PENSION LIABILITY
Balance at December 31, 2016	$ 34,395,626	$ 21,731,232	$ 12,664,394
Changes for the year:			
Service Cost	967,905	-	967,905
Interest	1,793,810	-	1,793,810
Differences between expected and actual experience	579,321	-	579,321
Changes in assumptions	969,280	-	969,280
Contributions - employer	-	1,201,056	(1,201,056)
Contributions - employee	-	167,784	(167,784)
Net investment income	-	2,639,818	(2,639,818)
Benefit payments, including refunds of employee contributions	(999,967)	(999,967)	-
Administrative expenses	-	(9,000)	9,000
Net change	3,310,349	2,999,691	310,658
BALANCE AT DECEMBER 31, 2017	**$ 37,705,975**	**$ 24,730,923**	**$ 12,975,052**

Statement of Deferred Outflows and Inflows of Resources

As of February 28, 2017 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	$ 577,249	$ (100,216)
Effects of changes in assumptions	1,674,843	(505,527)
Net difference between expected and net investment income	595,582	-
Employer contributions subsequent to the measurement period	1,356,513	-
TOTAL DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	**$ 4,204,187**	**$ (605,743)**

6. PENSION PLANS ... continued
Defined Benefit Pension Plans Sponsored by the Authority ... continued
Nonunion Plan ... continued
Statement of Deferred Outflows and Inflows of Resources ... continued

Amounts reported as deferred outflows and inflows of resources related to pensions (excluding employer contributions subsequent to measurement period) will be recognized in the pension expense as follows:

YEAR ENDED DECEMBER 31	AMOUNT TO BE RECOGNIZED
2018	$ 1,039,682
2019	802,902
2020	464,568
2021	(65,221)

Discount Rate

The discount rate used to determine the end of period total pension liability is 4.90%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2017 to 2047.

The long-term rate of return of 5.50% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 4.04% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the February 28, 2017 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

The discount rate used to determine the beginning of period total pension liability is 5.15%. The municipal bond rate as of February 29, 2016 was 3.91%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability of the Plan as of February 28, 2017, calculated using the discount rate of 4.90%, as well as what the net pension liability would be if it were to be calculated using a discount rate that is one percentage point lower (3.90%) or one percentage point higher (5.90%) than the current rate:

PLAN YEAR ENDED	1% DECREASE (3.90%)	DISCOUNT RATE (4.90%)	1% INCREASE (5.90%)
February 28, 2017	$ 18,222,667	$ 12,975,052	$ 8,582,234

6. PENSION PLANS ... continued

Defined Contribution Plans Sponsored by the Authority

Licensed Deck Officers Plan

The Authority also has a defined contribution plan for its licensed deck officers. Prior to July 27, 2013, the Authority was required to contribute an amount equal to 10.75% of base weekly earnings for each employee. Effective July 27, 2013, the Authority was required to contribute an amount equal to 7.50% of base weekly earnings for each employee. The Authority's required and actual contributions aggregated $312,051 and $303,120 for 2017 and 2016, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All licensed deck officers (captains, pilots, and mates) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Parking Lot Employees and Shuttle Bus Drivers Plan

The Authority also has a defined contribution plan for its permanent parking lot employees/shuttle bus drivers. Effective May 28, 2011, the Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each permanent parking lot employee/shuttle bus driver. As a result of a collective bargaining agreement effective from May 7, 2016 through May 7, 2021, beginning December 24, 2016 the Authority discontinued making contributions to this defined contribution plan on behalf of most of its permanent parking lot employees/shuttle bus drivers. Instead, the Authority will make contributions on behalf of these employees to the New England Teamsters and Trucking Industry Pension Fund Plan. However, the Authority will continue making the contribution of 5% of base weekly earnings on behalf of a small number of permanent parking lot employees/shuttle bus drivers who were approaching retirement and wished to remain in the Plan, and were allowed to do so under the collective bargaining agreement. The Authority's required and actual contributions for this plan aggregated $6,787 and $39,702 for 2017 and 2016, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

6. PENSION PLANS ... continued
Defined Contribution Plans Sponsored by the Authority ... continued
Parking Lot Employees and Shuttle Bus Drivers Plan ... continued

Participation and Vesting

All permanent parking lot employees/shuttle bus drivers are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Security Employees Plan

The Authority also has a defined contribution plan for its permanent security employees. The Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each security employee. As a result of a collective bargaining agreement effective from July 23, 2016 through July 23, 2021, beginning December 24, 2016 the Authority discontinued making contributions to this defined contribution plan on behalf of most of its permanent security employees. Instead, the Authority will make contributions on behalf of these employees to the New England Teamsters and Trucking Industry Pension Fund Plan. However, the Authority will continue making the contribution of 5% of base weekly earnings on behalf of a small number of permanent security employees who were approaching retirement and wished to remain in the Plan, and were allowed to do so under the collective bargaining agreement. The Authority's required and actual contributions for this plan aggregated $3,908 and $17,601 for 2017 and 2016, respectively.

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent security employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Unlicensed Vessel Employees Plan

The Authority also has a defined contribution plan for its permanent unlicensed vessel employees. Effective August 23, 2014, the Authority is required to contribute an amount equal to 3.5% of base weekly earnings for each employee. Prior to that, the Authority was required to contribute an amount equal to 10.0% of base weekly earnings for the period April 15, 2000 through August 22, 2014; 9.0% from April 17, 1999 through April 14, 2000; 7.5% from April 18, 1998 through April 16, 1999; and 6.0% through April 17, 1998. The Authority's required and actual contributions aggregated $268,780 and $269,930 for 2017 and 2016, respectively.

6. PENSION PLANS ... continued
Defined Contribution Plans Sponsored by the Authority ... continued
Unlicensed Vessel Employees Plan ... continued

Administration of the Plan

The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting

All permanent unlicensed vessel employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Multiemployer - Licensed Engineering Officers Plan

The Authority contributes to a multiemployer defined contribution plan for its licensed engineering officers. The Authority is required to contribute an amount equal to 10.667% of base weekly earnings for each employee on the permanent Chief Engineers roster as of August 1, 2008, and $12.50 per day for each engineering officer not on the permanent Chief Engineers roster as of August 1, 2008. In January 2012, the Authority discontinued contributing to the multiemployer defined contribution plan and instead began contributing to a multiemployer pension plan, administered by the Marine Engineers Beneficial Association Pension Trust at a rate of 11.7% of earnings.

Administration of the Plan

The Plan is administered by the Marine Engineers Beneficial Association Pension Trust, Trustee. The Trustee holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan.

Participation and Vesting

All engineering officers (chief engineers, third assistant engineers) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions

No employee contributions are made under the Plan.

Employer Contributions

In August 2016, the Authority resumed contributions to the defined contribution plan at a rate of 2.74%. The Authority's actual and required contributions aggregated $28,685 in 2016. In August of 2017, the Authority's contribution rate changed to 4.0% and the actual and required contributions totaled $79,347 in 2017.

6. PENSION PLANS ... continued

Deferred Compensation Plan

The Authority has a deferred compensation plan, in accordance with Internal Revenue Code Section 457, available to all regular full-time employees. Under the terms of the plan, employees who wish to participate may have contributed up to a maximum of $18,000 in 2017 and $18,000 in 2016 of their annual compensation. A "catch up" contribution for those employees 50 years of age or older is allowed; this amount is limited to an additional $6,000 per year. The Authority did not contribute to the plan in 2017 or 2016.

Multiemployer Pension Plans

The Authority provides benefits to certain of its employees by making contributions to various multiemployer pension plans. Such plans are available to all full-time union employees not covered by the Authority's single employer pension plan, and their eligibility in the plans commences upon employment. There were no outstanding payables under any of the plans for the year ending December 31, 2017. The schedule of employer contributions to the plans, presented as required supplementary information following the notes to the financial statements, present historical contributions made to each plan. None of these pension plans issue publicly available financial statements.

- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Licensed Deck Officers. The active union contract was executed effective July 30, 2016, and has a term ending July 30, 2021. The contribution rate, effective October 29, 2013, has been negotiated at $7.50 per hour to a maximum of $315.00 per week, per employee. During 2017, contributions were made for 61 employees totaling $745,496.
- The Marine Engineers Beneficial Association (M.E.B.A.) Pension Plan covered the Authority's Licensed Engineering Officers. The active union contract was executed effective July 30, 2016, and has a term ending July 30, 2021. The contribution rate, effective January 1, 2012, has been negotiated at 11.7% of the total wages per employee. Effective May 1, 2015, an additional $6.00 per day was redirected from the M.E.B.A. Medical and Benefits Plan towards the pension plan. From June 1, 2015 through October 31, 2015 an additional 5.0% surcharge on all contributions was required. During 2017, contributions were made for 45 employees totaling $391,439.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Unlicensed Vessel Employees. The active union contract was executed effective April 15, 2017, and has a term ending April 16, 2021. The contribution rate, effective January 1, 2017, has been negotiated at $5.00 per hour to a maximum of $210.00 per week, per employee. During 2017, contributions were made for 190 employees totaling $1,535,842.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Maintenance Employees. The active union contract was executed effective April 16, 2016, and has a term ending April 16, 2021. The contribution rate, effective April 1, 2011, has been negotiated at $6.37 per hour to a maximum of $254.80 per week, per employee. During 2017, contributions were made for 33 employees totaling $395,985.

6. PENSION PLANS ... continued
Multiemployer Pension Plans ... continued

- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Agency and Terminal Employees. The active union contract was executed effective April 16, 2016, and has a term ending April 16, 2021. The contribution rate, effective April 1, 2011, has been negotiated at $4.64 per hour to a maximum of $185.60 per week, per employee. During 2017, contributions were made for 108 employees totaling $874,250.
- The Massachusetts Service Employee's Pension Fund Plan covered the Authority's Reservation Clerks and Group Sales employees. The active union contract was executed effective August 22, 2015, and has a term ending August 24, 2018. The contribution rate, effective January 1, 2016, has been negotiated at $0.50 per hour to a maximum of $20.00 per week, per employee. During 2017, contributions were made for 36 employees totaling $28,962.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Parking Lot Employees/Shuttle Bus Drivers. The active union contract was executed effective May 7, 2016, and has a term ending May 7, 2021. The contribution rate, effective December 24, 2016, has been negotiated at $1.00 per hour to a maximum of $40.00 per week, per employee. During 2017, contributions were made for 31 employees totaling $47,856.
- The New England Teamsters and Trucking Industry Pension Fund Plan covered the Authority's Security Employees. The active union contract was executed effective July 23, 2016, and has a term ending July 23, 2021. The contribution rate, effective April 1, 2011, has been negotiated at $1.00 per hour to a maximum of $40.00 per week, per employee. During 2017, contributions were made for 12 employees totaling $15,671.

The covered payroll of such employees was $26,907,063, $25,085,157 and $23,655,906 in 2017, 2016 and 2015, respectively. The Authority's contributions to the Plans met the contribution requirements in 2017, 2016, and 2015, and aggregated $4,035,501 (15.0% of covered payroll for employees participating in the Plans in 2017), $3,693,443 (14.7% of covered payroll for employees participating in the Plans in 2016), and $3,610,789 (15.3% of covered payroll for employees participating in the Plans in 2015).

Pension Withdrawal Obligations

In March 2011, the Steamship Authority entered into successor collective bargaining agreements, with Teamster Local 59, with respect to its maintenance employees and its agency and terminal employees. Terms of the agreements allow the Authority to withdraw from the New England Teamsters and Trucking Industry Pension Fund (the Fund). The agreements provide that the Authority shall fully satisfy its withdrawal liability to the Fund by making 300 monthly withdrawal liability payments, each in the amount of $83,333, beginning October 2011. In addition, the Authority will enter into the New England Teamsters and Trucking Industry Pension Fund "New Employer Pool". The Authority's participation in the New Employer Pool requires that any future withdrawal liability be computed by the Direct Attribution Method under terms of the Employee Retirement Income Security Act of 1974 (ERISA §4211). In 2017 and 2016, the Authority made payments totaling $1,000,000, respectively, towards the withdrawal liability. Interest payments totaled $518,389 and $536,365 in 2017 and 2016, respectively. Pension withdrawal obligation totaled $13,343,618 and $13,825,229 as of December 31, 2017 and 2016, respectively, and is recorded in the Statements of Net Position using the present value of the obligation based upon incremental borrowing costs.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to the pension benefits described in Note 6, the Authority provides postemployment health care benefits for eligible employees who render at least 20 years of service and attain age 62 while in service until the employee is eligible for Medicare. The benefits, benefit level, employee contributions, and employer contributions are governed by the Authority and collective bargaining agreements. As of December 31, 2016, the actuarial valuation date, approximately 310 active employees and 7 retirees meet eligibility requirements. The plan does not issue separate stand-alone financial statements.

Benefits Provided

Medical coverage, excluding dental, under the group health insurance plan for regular full-time nonunion employees, licensed deck officers, and unlicensed vessel personnel with 20 or more years of service who retire after reaching age 62 will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pay 50% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pay 100% of the enrollment cost as established annually by the Plan administrator.

Funding Policy

Effective January 1, 2013, the nonunion retired employee must pay 20% of the enrollment cost (the working rate) as established annually by the Plan administrator. Effective July 27, 2013, the licensed deck officer retired employee must pay 20% of the enrollment cost (the working rate) as established annually by the Plan administrator. Effective August 2, 2014, the unlicensed vessel retired employee must pay 20% of the enrollment cost (the working rate) as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) ... continued

Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers*. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. The components of the Authority's annual OPEB cost for the years ended December 31, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on an actuarial valuation as of December 31, are as follows:

	2017	2016
Annual required contribution (ARC)	$ 176,919	$ 171,330
Interest on net OPEB obligation	42,531	41,603
ARC adjustment	(40,630)	(39,744)
Annual OPEB cost (expense)	178,820	173,189
Contributions made	(121,118)	(150,003)
Increase in net OPEB obligation	57,702	23,186
Net OPEB obligation, beginning of year	1,063,267	1,040,081
Net OPEB obligation, end of year	**$ 1,120,969**	$ 1,063,267

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016 and 2015 are as follows:

FISCAL YEARS ENDED	ANNUAL OPEB COST	PERCENTAGE ANNUAL OPEB CONTRIBUTION	NET OPEB OBLIGATION
December 31, 2015	$ 199,332	62.3%	$ 1,040,081
December 31, 2016	173,189	86.6%	1,063,267
December 31, 2017	178,820	67.7%	1,120,969

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) ... continued

Funded Status and Funding Progress

The funded status of the plan as of December 31, 2017, was as follows:

Actuarial accrued liability (AAL)	$ 2,321,433
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 2,321,433
Funded ratio (actuarial value of plan assets/AAL)	- %
Covered payroll (active plan members)	$ 19,003,148
UAAL as a percentage of covered payroll	12.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined as the Authority has not funded its obligation in advance. The actuarial assumptions included a 4.0% investment rate of return and an annual health care cost trend rate of 5.0%. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

8. COMMITMENTS

Construction in progress at December 31, 2017 consisted of expenditures by the Authority for various construction projects, which management expects will be completed in the years 2018, 2019, and 2020. At December 31, 2017, remaining construction commitments for these capital projects aggregated $55,815,304. In addition, dry-docking and overhaul commitments for vessels aggregated $5,167,385.

9. CONTINGENCIES

In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.

The Authority applies for and occasionally receives financial assistance from the federal government's various grant programs for specific projects. When this occurs, the entitlements to the resources are generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the Authority.

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased commercial insurance for these risks, except for those risks identified in the following paragraph, which the Authority accounts for in accrued expenses.

Group Health

The Authority has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The total charge is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are recorded as a component of accounts payable in the Authority's statements of net position. Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of pay-outs. The calculation includes a weighted-three-year-average of claims paid by group with an adjustment made to claims to account for increases in medical cost based on the Consumer Price Index — Medical (CPI-Med). The Authority carries stop-loss insurance on individual medical claims in excess of $150,000 per person and approximately $2,100,000 in the aggregate, up to a maximum aggregate benefit payment of $1,000,000 per person per year. An analysis of claims activities is presented below:

	2017	2016
Liability as of January 1	$ 172,512	$ 173,994
Current-year charges and changes in estimate	1,896,863	1,672,613
Actual claims paid	(1,937,478)	(1,674,095)
Liability as of December 31	**$ 131,897**	$ 172,512

Such amounts are recorded as a component of current liabilities in the statements of net position.

11. HEDGE PROGRAM

The Authority manages a fuel oil hedging program, which is intended to take advantage of market conditions to cap fuel expense. The objectives of the program are to (1) identify exposure to movements in energy prices, (2) understand the impact to the Authority's financial position, (3) employ all reasonable and prudent measures to mitigate the impact of price movements, and (4) manage the volatility of energy costs to acceptable levels. The hedge program attempts to transform the unacceptable risks of skyrocketing energy prices into an acceptable form, similar to an insurance policy.

The Steamship Authority's hedging program operates under a non-speculative philosophy and transactions are limited to expected energy volumes anticipated in the normal course of operations. The Authority's hedging strategy may include fixed-price swaps, collars, or caps. The program is designed to allow the Authority to benefit from prices that fall below the cap while offering some protection that pricing will not exceed the cap price.

As of December 31, 2017, the Authority had executed hedging transactions for 2,478,000 gallons of fuel out of the approximate 3,234,000 gallons of fuel which is expected to be used in 2018. The cost of these call options totaled $459,621. As the Authority's hedging is for fuel oil used in the operation of its vessels and the monthly call options are for quantities lower than the quantities reasonably expected to be consumed, these activities would be subject to the exclusion provided for in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and not required to be reported as derivative instruments.

12. SUBSEQUENT EVENTS

The Authority has evaluated events and transactions for potential recognition or disclosure through May 10, 2018, when the financial statements were available to be issued.

The Authority entered into various irrevocable stand-by letters of credit with TD Bank, N.A. subsequent to year-end that will serve as collateral for the Authority's public deposits. A listing of issued letters of credit is presented below:

ISSUANCE DATE	DUE DATE	AMOUNT
January 3, 2018	April 3, 2018	$ 1,500,000
January 3, 2018	April 3, 2018	9,000,000
January 5, 2018	April 3, 2018	1,500,000
		$ 12,000,000

SCHEDULE OF CHANGES IN NET PENSION LIABILITY OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY PENSION PLAN

REPORTING PERIOD ENDING	12/31/2017	12/31/2016	12/31/2015
Total Pension Liability			
Service cost	$ 967,905	$ 1,081,252	$ 647,483
Interest	1,793,810	1,681,088	1,632,651
Benefit payments	(999,967)	(370,672)	(319,029)
Difference between expected and actual experience	579,321	(177,602)	354,985
Change in assumptions	969,280	(895,895)	2,607,925
Net Change in Total Pension Liability	3,310,349	1,318,171	4,924,015
Total Pension Liability, beginning of period	**34,395,626**	33,077,455	28,153,440
Total Pension Liability, end of period	**$ 37,705,975**	$ 34,395,626	$ 33,077,455
Plan Fiduciary Net Position			
Employee contributions	$ 167,784	$ 161,527	$ 157,177
Employer contributions	1,201,056	807,637	789,093
Net investment income	2,639,818	(1,179,009)	1,245,714
Benefit payments	(999,967)	(370,672)	(319,029)
Administration expenses	(9,000)	-	(2,064)
Net Change in Plan Fiduciary Net Position	2,999,691	(580,517)	1,870,891
Plan Fiduciary Net Position, beginning of period	**21,731,232**	22,311,749	20,440,858
Plan Fiduciary Net Position, end of period	**$ 24,730,923**	$ 21,731,232	$ 22,311,749
Net Pension Liability			
Net Pension Liability	**$ 12,975,052**	$ 12,664,394	$ 10,765,706
Ratios			
Fiduciary net position as a percentage of total pension liability	65.59%	63.18%	67.45%
Covered employee payroll	$ 5,517,416	$ 5,381,074	$ 5,160,167
Net pension liability as a percentage of covered employee payroll	**235.17%**	235.35%	208.63%

* Changes in the pension liability for the years prior to the fiscal year ending December 31, 2015 were not available and accordingly, were not included in the schedule.

SCHEDULE OF FUNDING PROGRESS OF THE WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET STEAMSHIP AUTHORITY OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL)	(4) FUNDED RATIO	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL
			(2) MINUS (1)	(1) DIVIDED BY (2)		(3) DIVIDED BY (5)
December 31, 2010	$ -	$ 2,152,225	$ 2,152,225	0.0%	$ 16,305,706	13.2%
December 31, 2012	-	2,130,447	2,130,447	0.0	17,170,992	12.4
December 31, 2014	-	2,483,899	2,483,899	0.0	17,715,239	14.0
December 31, 2016	-	2,321,433	2,321,433	0.0	19,003,148	12.1

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE MULTIEMPLOYER PENSION PLANS (UNAUDITED)

INFORMATION NOTED IS FOR THE LAST 10 FISCAL YEARS

	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	MARINE ENGINEERS BENEFICIAL ASSOCIATION PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND
YEAR ENDING	LICENSED DECK OFFICERS	LICENSED ENGINEERS	UNLICENSED VESSEL EMPLOYEES	MAINTENANCE EMPLOYEES
December 31, 2008	$ -	$ -	$ -	$ 327,737
December 31, 2009	-	-	-	351,984
December 31, 2010	-	-	-	356,664
December 31, 2011	-	-	-	340,040
December 31, 2012	-	253,075	-	362,013
December 31, 2013	307,582	315,703	-	366,594
December 31, 2014	699,772	313,260	466,630	358,220
December 31, 2015	707,332	354,697	1,329,894	352,182
December 31, 2016	718,879	382,758	1,343,290	376,028
December 31, 2017	745,496	391,439	1,535,842	395,985

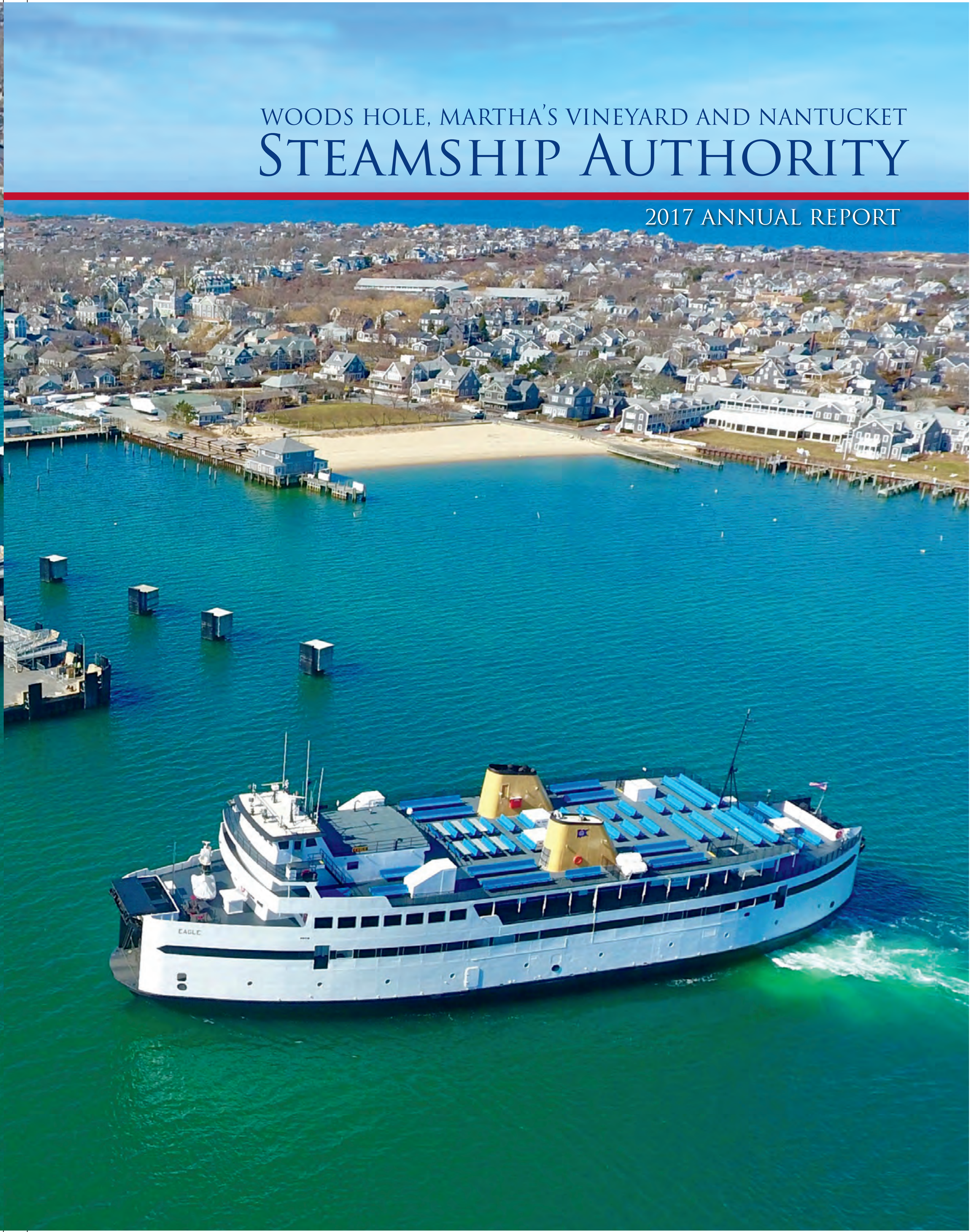
	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	MASSACHUSETTS SERVICE EMPLOYEE'S PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND	NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND
YEAR ENDING	AGENCY & TERMINAL EMPLOYEES	RESERVATION CLERKS & GROUP SALES	PARKING LOT EMPLOYEES & BUS DRIVERS	SECURITY EMPLOYEES
December 31, 2008	$ 953,020	$ 51,656	$ -	$ -
December 31, 2009	966,960	37,984	-	-
December 31, 2010	1,094,156	37,890	-	-
December 31, 2011	928,440	32,167	-	-
December 31, 2012	891,850	31,195	-	-
December 31, 2013	895,432	29,625	-	-
December 31, 2014	861,731	26,991	-	-
December 31, 2015	835,367	31,317	-	-
December 31, 2016	840,360	32,128	-	-
December 31, 2017	874,250	28,962	47,856	15,671


MARTHA'S VINEYARD

The Steamship Authority

SteamshipAuthority.com

P.O. Box 284
Woods Hole, MA 02543



WOODS HOLE, MARTHA'S VINEYARD AND NANTUCKET

STEAMSHIP AUTHORITY

2017 ANNUAL REPORT