

CAPE ANN  
TRANSPORTATION AUTHORITY

FINANCIAL STATEMENTS  
AND  
AUDITOR'S REPORTS

JUNE 30, 2010

CAPE ANN TRANSPORTATION AUTHORITY  
(A Component Unit of the Commonwealth of Massachusetts)

Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the  
Cape Ann Transportation Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Cape Ann Transportation Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2010 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2010, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Roland P. Lambalot, PC**

Methuen, Massachusetts  
September 9, 2010

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Required Supplementary Information  
Management's Discussion and Analysis

The following is offered to the readers of the Cape Ann Transportation Authority's financial statements. It is a narrative overview and analysis of the financial performance of the Cape Ann Transportation Authority (the Authority) during the fiscal year ended June 30, 2010. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 8.

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Paul F. Talbot, Administrator, Cape Ann Transportation Authority, 3 Pond Road, Gloucester, Massachusetts, 01930.

**Overview of the Financial Statements**

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

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

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

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

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

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements and can be found on pages 11 through 18 of the report.

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Required Supplementary Information

Management's Discussion and Analysis

**Condensed Financial Information**

Condensed financial information as of and for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 5,116,448	\$ 5,227,899
Capital assets, net	<u>6,344,377</u>	<u>6,658,020</u>
Total assets	<u>11,460,825</u>	<u>11,885,919</u>
Current liabilities	4,965,171	5,025,366
Long term liabilities	<u>133,494</u>	<u>184,749</u>
Total liabilities	<u>5,098,665</u>	<u>5,210,115</u>
Net assets:		
Invested in capital assets, net of related debt	6,155,345	6,425,406
Restricted	17,783	17,783
Unrestricted	<u>189,032</u>	<u>232,615</u>
Total net assets	<u>\$ 6,362,160</u>	<u>\$ 6,675,804</u>
Operating revenue		
Revenue from transportation	\$ 7,857,603	\$ 7,171,876
Other	<u>455,698</u>	<u>435,427</u>
Total operating revenues	<u>8,313,301</u>	<u>7,607,303</u>
Operating expenses:		
Transportation services	9,903,532	9,346,979
Other operating expenses	<u>84,987</u>	<u>96,670</u>
Total operating expenses, excluding depreciation	9,988,519	9,443,649
Depreciation and amortization	<u>520,307</u>	<u>542,432</u>
Total operating expenses, including depreciation	<u>10,508,826</u>	<u>9,986,081</u>
Operating loss	<u>(2,195,525)</u>	<u>(2,378,778)</u>
Net nonoperating revenue	<u>1,674,218</u>	<u>1,836,346</u>
Loss before capital grants	(521,307)	(542,432)
Capital grants and contributions	<u>206,663</u>	<u>69,571</u>
Change in net assets	<u>(314,644)</u>	<u>(472,861)</u>
Beginning of year net assets	<u>6,675,804</u>	<u>7,148,665</u>
End of year net assets	<u>\$ 6,361,160</u>	<u>\$ 6,675,804</u>

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Management's Discussion and Analysis

**Financial Highlights**

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$6,362,160. The Authorities total net assets decreased by \$313,644 mainly due to depreciation of capital assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares decreased \$13,206, or 6.7%, due to a decrease in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$544,870, or 5.77%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- State operating assistance was level funded; federal capital assistance and operating assistance decreased.

**Capital Assets and Debt**

The Authority's capital assets as of June 30, 2010 amounted to \$6,344,377 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions during the fiscal include the following:

Building Improvements	\$ 165,331
Transit Equipment	41,332
	<u>\$ 206,663</u>

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

At year-end, the Authority had \$2,800,000 of notes outstanding, an increase of \$100,000 from the prior year.

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Management's Discussion and Analysis

**Economic Factors and Next Year's Budgets**

Funding the Authority's net cost of service consists of non-capital expenses less all non-capital revenues, except member municipality assessments and contract assistance from the Commonwealth of Massachusetts. The net cost of service is funded through assessments to member municipalities, which may increase by no more than 2.5% annually plus the members' share of any new services. Local assessments can make up to 50% of the Authority's net cost of service, but must subsidize at least 25% of the net cost of service. The remaining net cost of service, after local assessments, is funded by the Commonwealth. The Commonwealth will fund a minimum of 50% and a maximum of 75% of the Authority's net cost service. This portion of the net cost of service is funded a year in arrears by the Commonwealth (the Authority's fiscal 2010 assistance will be included in the State's fiscal 2011 budget).

CATA applied for and received a CMAQ Grant in the amount of \$7,000 to fund a shuttle service from Stage Fort Park, a 500 car parking lot, to various points of interest in downtown Gloucester and Good Harbor Beach. The shuttle service began on June 19, 2010 and operates on weekends and holidays through September 6, 2010.

CATA also applied for and received a New Freedom Grant in the Amount of \$58,885 to provide transportation services from the CATA area to the Addison Gilbert Hospital, Beverly Hospital, Mass General Hospital North and the North Shore Dialysis Center. The grant will be used to implement The Cape Ann Transportation Operating Company Inc. (CATOC's) Health Link Shuttle that will provide a new public transportation service for cancer, dialysis and other medical patients beyond what is required. CATOC will coordinate this service with Senior Care, Inc. and the Gloucester and Rockport Councils on Aging and with the designated hospitals and dialysis center. The Health Link Shuttle will bridge the gap for much needed services not provided by CATOC's demand response and ADA Transportation Services.

CATA applied for and received a third grant in the amount of \$76,500 through the Job Access and Reverse Commute Program to install and implement an Interactive Voice Response System. This service, which will be available in English and Spanish, and available 24 hours a day - 7 days per week will enable Gloucester and Rockport clients to perform the following functions via the phone: 1- bus schedule information as well as scheduled time of the arrival by speaking or entering bus-stop names via touch tone; 2- provide more accurate and real information to feeder Dial-a-Ride bus systems via web/phone; 3- call ahead service for existing clients, checking on no-shows; 4- trip confirm/cancellation service for existing clients; 5- trip review for clients who use CATA's Medical Services (under the Human Services Transportation) 6- Bus schedule information as well as scheduled time of arrival by requesting via a text messaging on hand held telephones. While this project may not directly increase employment related (Job Access or Reverse Commute) it will make it easier for low income as well as bi-lingual people to access inexpensive transportation to work.

The Cape Ann Transportation Operation Company, Inc. was successful in negotiating a three- year collective bargaining agreement with Teamsters Local 42. The contract was ratified by a notable vote of 23 in favor and 2 against. The wage increase was offset by a union concession on dental and medical premiums. Any future increase in medical premiums will be split 70% company & 30% employee from the current 90% - 10% split. Effective September 1, 2010, dental coverage will be 70% company and 30% employee compared to the current situation where the operating company pays 100% of the premium.

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In the spring of 2010, CATA received delivery of 3 sixteen-passenger vans. The total cost of the vans was \$182,941 and funded by the Federal Government in the amount of \$146,352 (Section 5307), \$35,600 in RTA CAP Funds from Mass DOT and the remaining balance of \$989 from CATA's operating funds. We will be submitting an application to Mass DOT for three more sixteen-passenger vans through the State's Mobility Assistance Program (MAP).

Congressman Tierney was successful in obtaining a federal earmark in the amount of \$500,000 for the purchase of a bus and fare-boxes. CATA will allocate \$224,000 of the earmark towards the purchase of 20 fare-boxes costing \$280,000. The required 20% match in the amount of \$56,000 will be provided through the State RTA CAP. The fare-boxes will be purchased through a consortium of Regional Transit Authorities.

The Authority will receive delivery of two 30' Gillig Buses on or before September 1, 2010. The buses were purchased with ARRA Funds. The Authority also has plans to purchase a 3<sup>rd</sup> bus using a federal earmark of \$276,000 and \$69,000 in local funds through the toll credit mechanism.

The State Department of Transportation (DOT) has approved the release of \$900,000 allocated for CATA in the State's 2008 Transportation Bond Bill. The approval by DOT has been forwarded to Administration and Finance for their review and approval. These funds will be used for roof replacement, installation of solar panels, purchase of an emergency generator and other infrastructure improvements to the building.

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Statement of Net Assets

June 30, 2010

**Assets**

Current assets:

Unrestricted cash and cash equivalents (note 2)	\$ 188,591
Receivables:	
Federal operating assistance	459,457
State contract assistance	1,501,030
Federal capital assistance	107,379
State capital assistance	35,600
Local assessments	562,293
Other	1,356,717
Contractor advances	238,853
Deferred costs	264,745
Total current assets	4,714,665

Non-current assets:

Restricted cash and cash equivalents (notes 2 and 13)	17,783
Deferred costs	384,000
Capital assets, net (note 4)	6,344,377
Total non-current assets	6,746,160
Total Assets	\$ 11,460,825

**Liabilities**

Current liabilities:

Accounts payable	\$ 1,629,057
Accrued payroll	53,688
Accrued interest payable	42,888
Revenue anticipation notes payable (note 5)	2,800,000
Notes payable - current portion	55,538
Intergovernmental liability (note 7)	384,000
Total current liabilities	4,965,171

Long-term liabilities:

Notes payable - bank (note 6)	133,494
Total liabilities	5,098,665

**Net Assets**

Invested in capital assets, net of related debt	6,155,345
Restricted	17,783
Unrestricted	189,032
Commitments and Contingencies (note 11)	-
Total net assets	\$ 6,362,160

*See accompanying notes to the financial statements*

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2010

Operating Revenues:	
Passenger fares	\$ 186,467
Brokerage revenues	7,671,136
Other transit services	323,989
Insurance recoveries	29,188
Other Income	<u>103,521</u>
Total operating revenues	<u>8,314,301</u>
Operating Expenses:	
Transit service (note 13)	9,903,532
Administrative and general	76,524
Professional services	8,463
Depreciation	<u>520,307</u>
Total operating expenses	<u>10,508,826</u>
Operating loss	<u>(2,194,525)</u>
Non-operating revenues (expense)	
Federal operating assistance	322,940
Commonwealth of Massachusetts contract assistance	1,019,708
Local Assessments	388,990
Interest income	152
Interest expense	<u>(57,572)</u>
Total non-operating revenues	<u>1,674,218</u>
Loss before capital grants	<u>(520,307)</u>
Capital Grants:	
Federal	165,331
Commonwealth of Massachusetts	<u>41,332</u>
Total capital grants	<u>206,663</u>
Change in net assets	(313,644)
Net assets, beginning of year	<u>6,675,804</u>
Net assets, end of year	<u>\$ 6,362,160</u>

*See accompanying notes to the financial statements*

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Statement of Cash Flows

Year ended June 30, 2010

Cash flows from operating activities:	
Passenger fares	\$ 186,467
Brokerage service revenues	7,717,848
Other cash receipts	457,678
Payments to operators	(9,483,942)
Payments to other vendors	(344,729)
Payments to employees for services	(479,313)
Net cash used in operating activities	<u>(1,945,991)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	2,800,000
Principal paid on revenue anticipation notes	(2,700,000)
Interest paid on bank note	(13,110)
Interest paid on revenue anticipation notes	(80,775)
Operating and contract assistance	1,726,258
Net cash provided by non-capital financing activities	<u>1,732,373</u>
Cash flows from financing activities:	
Capital grants	260,952
Purchase of capital assets	(206,663)
Net cash provided by capital and related financing activities	<u>54,289</u>
Cash flows from investing activities:	
Interest income	152
Net cash provided by investing activities	<u>152</u>
Change in cash and cash equivalents	(159,177)
Cash and cash equivalents, beginning of year	<u>3,655,551</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,496,374</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,194,525)
Adjustments:	
Depreciation	520,307
Changes in assets and liabilities	
Local assessment and other receivables	(13,416)
Contractor advances	(130,337)
Accounts payable and accrued liabilities	(128,020)
Net cash used in operating activities	<u><u>\$ (1,945,991)</u></u>

*See accompanying notes to the financial statements*

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements

June 30, 2010

**Note 1. Nature of the Organization and Summary of Significant Accounting Policies**

The financial statements of the Cape Ann Transportation Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently. The more significant of the Authority's accounting policies are described below:

**A. Reporting Entity**

The Authority, a political subdivision of the Commonwealth of Massachusetts (the Commonwealth), was established in accordance with Chapter 161B of the Massachusetts General Laws to provide a public transit system for the territory comprised of the City of Gloucester and the Towns of Rockport, Ipswich and Essex. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Commonwealth.

**B. Basis of Accounting**

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

**C. Budget**

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

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Notes to Financial Statements

June 30, 2010

**D. Cash and Cash Equivalents**

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

**E. Compensated Absences**

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies.

**F. Capital Assets**

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

**G. Depreciation**

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

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

A full month's depreciation is taken in the month an asset is placed in service. When property and equipment are disposed, depreciation is removed from the respective accounts, and the resulting gain or loss, if any, is recorded in operations.

**H. Estimates**

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

**I. Concentration of Credit Risk**

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

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**J. New Accounting Pronouncements**

In fiscal 2010 the Authority adopted the provisions of GASB Statement No. 51, *Accounting and Financial reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The implementation of these standards did not have a material effect on the Authority's financial statements. The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions* and No. 59, *Financial Statements Omnibus*, which requires adoption subsequent to June 30, 2010 and is applicable to the Authority. The Authority has not yet adopted these statements; the implication on the fiscal practices and financial reports of the Authority is being evaluated.

**Note 2. Cash and Cash Investments**

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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. As of June 30, 2010 \$-0- of the government's bank balance of \$236,100 was exposed to custodial credit risk as uninsured and uncollateralized.

**Note 3. Grants**

Under various sections of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), the United States Department of Transportation approves capital grants to fund up to 80% of the Authority's capital improvement projects. The remaining portion of approximately 20% will be financed through the Commonwealth's Executive Office of Transportation. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition the Federal government may fund up to 80% of the Authority's preventative maintenance and complementary ADA services costs, as defined.

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Notes to Financial Statements

June 30, 2010

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2010 was \$1,019,708. The state operating contract assistance receivable, in the accompanying Statement of Net Assets, is inclusive of \$481,322 related to funds due from the Commonwealth; this amount has not been funded. Unfunded deficits are generally funded via Commonwealth supplemental budgets and the Authority will pursue this avenue. These unfunded amounts consist of two years of payments against the amount due the Commonwealth (Note 6). These funds were withheld by the state from contract assistance payments. There are an additional \$264,745 in costs that have been accumulated that have not been funded by available resources.

**Note 4. Capital Assets**

The following is a summary of changes in Capital Assets at June 30, 2010:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 850,000	-	-	850,000
Total capital assets not being depreciated	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>850,000</u>
Other capital assets:				
Buildings and improvements	5,697,913	23,723	-	5,721,636
Transit equipment	5,006,012	182,941	-	5,188,953
Service equipment	171,117	-	-	171,117
Electronic equipment	208,685	-	-	208,685
Service vehicles	133,928	-	-	133,928
Furniture & fixtures	637,851	-	-	637,851
Total other capital assets at historical cost	<u>11,855,506</u>	<u>206,664</u>	<u>-</u>	<u>12,062,170</u>
Less accumulated depreciation for:				
Buildings and improvements	964,703	155,077	-	1,119,780
Transit equipment	4,142,027	297,419	-	4,439,446
Service equipment	130,717	11,924	-	142,641
Electronic equipment	181,800	6,416	-	188,216
Service vehicles	133,928	-	-	133,928
Furniture & fixtures	494,311	49,471	-	543,782
Total accumulated depreciation	<u>6,047,486</u>	<u>520,307</u>	<u>-</u>	<u>6,567,793</u>
Other capital assets, net	<u>5,808,020</u>	<u>(313,643)</u>	<u>-</u>	<u>5,494,377</u>
Total capital assets, net	<u>\$ 6,658,020</u>	<u>(313,643)</u>	<u>-</u>	<u>6,344,377</u>

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

**Note 5. Revenue Anticipation Notes**

The Authority is subsidized by the Commonwealth for its annual “Net Cost of Service” as defined in the legislation. These subsidies are funded subsequent to the year in which the costs are incurred. Therefore, the Authority issues revenue anticipation notes to cover cash flow deficiencies until funding is received.

During the year ended June 30, 2010, the following changes occurred in the Authority’s revenue anticipation notes (RANS):

Beginning balance	\$ 2,700,000
New notes issued	2,800,000
Notes retired	<u>(2,700,000)</u>
Ending balance	<u>\$ 2,800,000</u>

The \$2,800,000 of RANS outstanding were issued on July 11, 2009, carried an interest rate of 1.50% and were due July 9, 2010. The Authority refinanced its Revenue Anticipation Notes borrowing \$3,000,000 at an interest rate 1.50% with a due date of July 8, 2011. The Authority uses the proceeds of these notes to fund its mass transit operations.

**Note 6. Note Payable - Bank**

The Authority entered into a loan agreement with Sovereign Bank for a revolving line of credit in the maximum amount of \$500,000 effective November 3, 2004. This loan is secured by the real estate owned by the Authority. The note contains a variable interest rate and is due on demand. Additional security consists of the assignment of rents received for office space that is leased out. The loan was modified in September of 2008 and became a term loan with monthly payments of \$5,154 due through September of 2013. The note carries a fixed rate of 6.63%. The scheduled maturity of the loan is as follows:

2012	\$ 55,538
2013	54,615
2014	58,366
2015	20,513

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Notes to Financial Statements

June 30, 2010

**Note 7. Long-Term Debt**

In December of 2000 the Authority entered into an agreement with the Commonwealth of Massachusetts to reimburse the state \$960,000 for amounts that were set aside in a reserve for the purchase and rehabilitation of real estate subsequently acquired. These transfers were deemed improper by the state. The agreement calls for the Authority to repay \$192,000 for five successive years beginning in 2005 by way of reductions in current state contract assistance. At the time of the agreement the Authority was providing transit brokerage services to various state agencies whereby excess revenues were realized from which the original reserves were created. During fiscal 2004 the Authority lost major contracts under a bid process that reduced the Authority's gross revenue by \$16,014,071. The remaining brokerage contracts were adjusted to effectively eliminate the possibility of significant excess revenues from which the state would be paid back. The Authority has not reduced its current year contract assistance in the audit as excess revenues needed to repay the state were not realized. There is no provision for acceleration of amounts due under the agreement. The Authority is attempting to get the State to discharge this liability and refund all amounts referenced in Note 3. The State did not reduce contract assistance for fiscal year 2007 through 2009. The balance due is \$384,000 at June 30, 2010.

**Note 8. Deferred Compensation Plan**

The Authority administers a deferred compensation plan through which employees can participate in a voluntary, payroll-deducted retirement program created in accordance with Internal Revenue Code Section 457. The Authority makes contributions up to 7 ½% of an individual's eligible compensation. The deferred compensation is not available to employees until termination, retirement, death approved or unforeseeable emergency. All amounts of compensation deferred, property purchased with those amounts, and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The Authority contributed \$35,947 during the fiscal year.

**Note 9. Risk Management**

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2010.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2010, expenditures for the Authority's share of health insurance contributions were \$34,169. The Authority purchases insurance for worker's compensation for its employees.

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Notes to Financial Statements

June 30, 2009

**Note 10. Disaggregation of Receivable and Payable Balances**

Receivables are primarily comprised of current intergovernmental receivables representing 94.5% of the balance at year end. The remaining current receivables are comprised of amounts due from vendors and auxiliary revenue sources.

Payable balances are comprised of 96.4% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities.

**Note 11. Commitments and Contingent Liabilities**

The Authority had entered into a five year agreement for management and preventative maintenance services effective July 1, 2003. Annual fees started at \$106,656. The management agreement was put out to bid. The new agreement, awarded June 27, 2008, is for a one year term ending June 30, 2009 with four additional one-year options exercisable at the Authority's sole discretion at a fixed management fee of \$115,000.

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

The records of the Authority for the period of October 1, 2002 through September 30, 2003 pertaining to brokerage services provided were reviewed by the state's Office of Health and Human Services. The sample resulted in the discovery of two claims which lacked supporting documentation. The findings were extrapolated and the agency determined that the Authority was overpaid by \$115,590. CATA has filed an appeal in this matter disputing the statistical validity of the sample size and the methodology used in the extrapolation. No reserve has been set up to recognize any payback. Management feels that the resolution will be favorable to the Authority and that any possible reversion would be immaterial to the financial statements.

**Note 12. Net Assets – Investments in Capital Assets**

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

Cost of Capital Assets Acquired	\$ 12,912,170
Less: Accumulated Depreciation	6,567,793
Less: Outstanding Debt Related to Capital Assets	189,032
Investments in Capital Assets	<u><u>\$ 6,155,345</u></u>

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

**Note 13. Net Assets – Restricted**

In Accordance with Massachusetts General Laws Chapter 161 Section 6(q) the Authority has established a reserve for extraordinary expenses. Prior approval from state officials is required before any expenditure can be made.

**Note 14. Transit Service**

The operation of the Authority's fixed route service and maintenance of the Authority's transportation property are performed by Cape Ann Transportation Operating Company (CATOC) under the terms of an agreement whereby CATOC operates mass transit along such routes and according to such a schedule as defined by the Authority. In return, the Authority agrees to pay CATOC a management fee and to reimburse CATOC for all costs and expenses which are reasonable and necessary for the efficient operation of the service. CATOC also operates bus and van services for the elderly, handicapped, and low-income persons.

**Note 15. Human Service Transportation**

The Authority has entered into contracts with the State Departments of Medical Assistance, Mental Retardation and Public Health to provide transportation services to their respective clients. The Authority engages private taxi and van companies for these services. All agreements are subject to the appropriation and allocation of the funding necessary to discharge the payment obligations of the Commonwealth accruing that fiscal year.

**Note 16. Subsequent Events**

Subsequent events have been evaluated through September 9, 2010, the date on which the financial statements were available to be issued.

**Note 17. Related Party**

The Authority has entered in an agreement with the City of Gloucester to lease 10,652 square feet of office space. The five year lease is effective January 1, 2006 and calls for initial monthly payments of \$6,000 plus a pro-rata share of heating costs. The City pays its own utilities. The City had a month by month rental until it bid on the property. Rental income for the year ended June 30, 2010 was \$80,914. The Authority advertised the rental of this space and sent out requests for proposals to public and private entities. The City of Gloucester was the only respondent. Its reply was considered to be arms length based on the location of the property and the current use by the owner.

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Budgetary Comparison Schedule

For the Year Ended June 30, 2010

<u>Expense Description</u>	<u>Original Budget</u>	<u>Actual Expenses</u>	<u>Variance (Over)/Under</u>
Administration			
Personnel	\$ 71,038	47,852	23,186
Professional Services	44,279	8,463	35,816
Office and Travel	28,627	28,672	(45)
Debt Service - Interest	155,636	57,572	98,064
Transportation			
Fixed Route	1,737,004	1,513,703	223,301
Special Services	744,430	718,693	25,737
Brokerage Services	<u>6,042,382</u>	<u>7,671,136</u>	<u>(1,628,754)</u>
Total Expenses	<u>\$ 8,823,396</u>	<u>10,046,091</u>	<u>(1,222,695)</u>

*See accompanying independent auditors' report*

**CAPE ANN TRANSPORTATION AUTHORITY**  
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Schedule of Net Cost of Service

For the Year Ended June 30, 2010

	Urbanized Area Service	Rural Area Service	Total Area Service
<u>OPERATING COSTS</u>			
CATA administrative costs	\$ 61,998	22,989	84,987
Purchased services			
Fixed route	1,182,927	330,776	1,513,703
Demand responsive	718,693	-	718,693
Brokerage service	7,671,136	-	7,671,136
Debt service - interest	<u>57,572</u>	<u>-</u>	<u>57,572</u>
Total operating costs	9,692,326	353,765	10,046,091
<u>FEDERAL OPERATING ASSISTANCE</u>			
FTA operating and administrative	300,000	22,940	322,940
Other federal	-	-	-
Total federal assistance	<u>300,000</u>	<u>22,940</u>	<u>322,940</u>
<u>REVENUES</u>			
Operating			
Farebox revenue	143,021	43,446	186,467
Brokerage service reimbursement	7,694,321	-	7,694,321
Other Revenue			
Rental income	80,914	-	80,914
Interest income	152	-	152
Miscellaneous	<u>352,599</u>	<u>-</u>	<u>352,599</u>
Total other revenue	433,665	-	433,665
<u>NET OPERATING DEFICIT</u>	1,121,319	287,379	1,408,698
<u>ADJUSTMENTS</u>			
Extraordinary expenses	-	-	-
<u>NET COST OF SERVICE</u>	1,121,319	287,379	1,408,698
<u>NET COST OF SERVICE FUNDING</u>			
Local assessments	318,509	70,481	388,990
State contract assistance to be funded	802,810	216,898	1,019,708
Less: partial payment made by EOTC after July 1st	772,969	144,769	917,738
Balance requested from the State	29,841	72,129	101,970
<u>UNREIMBURSED DEFICIT</u>	-	-	-

*See accompanying independent auditors' report*

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Net Cost of Service-Calculation Worksheet and Supplemental Data

For the Year Ended June 30, 2010

Proof calculations and other required information:

A.	Prior year operating expenses, net of fully funded brokerage service	\$ 2,567,222
	Allowable percentage increase:	2.50%
	Prior year, net operating expenses times 2.5%	<u>64,181</u>
	Current year, allowable net operating expenses	<u>2,631,403</u>
	Plus adjustments:	
	ADA expenses	718,693
	Brokerage funded costs	7,671,136
	New service costs	-
	Total allowable operating costs	<u><u>11,021,232</u></u>
B.	Amount of extraordinary expenses	-
	Prior year local assessment	379,502
	Percentage of extraordinary to prior local assessment	0.00%
C.	Aggregate amount of reserve account at June 30	17,783
	Prior year local assessment	379,502
	Percentage of reserve account to prior local assessment	4.70%
D.	State the management fee paid to major service providers as a percentage of operating costs incurred.	5.30%
E.	State the percentage of benefits paid by the RTA on behalf of RTA employees for:	
	Group life and accidental death insurance	0.00%
	Group health insurance	75.00%
F.	State the brokerage services contracts' costs as a percentage of total operating costs.	76.36%

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Schedule of Allocation of Net Operating Deficits

June 30, 2010

	Fixed Route Bus Service	Demand Responsive	Human Services	Transit Deficits	General Admin.	Interest Expense	Net Cost of Service
Total cost	\$ 1,513,703	718,693	7,671,136	9,903,532	84,987	57,572	10,046,091
Credits	<u>436,106</u>	<u>207,059</u>	<u>7,671,136</u>	<u>8,314,301</u>	<u>-</u>	<u>152</u>	<u>8,314,453</u>
Net Cost	<u>1,077,597</u>	<u>511,634</u>	<u>-</u>	<u>1,589,231</u>	<u>84,987</u>	<u>57,420</u>	<u>1,731,638</u>
Allocation:							
Federal	208,047	88,620	-	296,667	16,313	9,960	322,940
State	629,466	306,218	-	935,684	49,660	34,364	1,019,708
Gloucester	189,666	88,181	-	277,847	14,802	10,195	302,844
Rockport	50,418	22,191	-	72,609	3,869	2,665	79,143
Ipswich	-	4,672	-	4,672	249	172	5,093
Essex	<u>-</u>	<u>1,752</u>	<u>-</u>	<u>1,752</u>	<u>94</u>	<u>64</u>	<u>1,910</u>
Total Allocation:	<u>\$ 1,077,597</u>	<u>511,634</u>	<u>-</u>	<u>1,589,231</u>	<u>84,987</u>	<u>57,420</u>	<u>1,731,638</u>

Notes:

- (a) Transit deficits for fixed route transportation are apportioned to the communities based on the mileage of those routes that pass through the community. The demand responsive is allocate by contract.
- (b) The general expense of the Authority are allocated based on the percentage of which each funding participant's transit deficit bears to the total combined transit deficit of all participants exclusive of special projects.

*See accompanying independent auditors' report*

ROLAND P. LAMBALOT, P.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Advisory Board

Cape Ann Transportation Authority

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining information of Cape Ann Transportation Authority (the Authority) as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 9, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the advisory board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**Roland P. Lambolot, PC**

Methuen Massachusetts  
September 9, 2010

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)  
Schedule of Current Year Findings and Questioned Costs  
June 30, 2010

There were no findings or questioned costs for the current year.

**CAPE ANN TRANSPORTATION AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Status of Prior Year Audits

June 30, 2010

There were no significant or material uncorrected prior year findings that affect the current year audit objectives.