

CAPE ANN
TRANSPORTATION AUTHORITY

FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS

JUNE 30, 2011

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

Year Ended June 30, 2011

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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, 2011, 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, 2011 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 20, 2011, 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 20, 2011

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

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, 2011. 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.

CAPE ANN TRANSPORTATION AUTHORITY
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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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 5,379,020	\$ 5,116,448
Capital assets, net	<u>6,720,652</u>	<u>6,344,377</u>
Total assets	<u>12,099,672</u>	<u>11,460,825</u>
Current liabilities	5,286,449	4,965,171
Long term liabilities	<u>74,788</u>	<u>133,494</u>
Total liabilities	<u>5,361,237</u>	<u>5,098,665</u>
Net assets:		
Invested in capital assets, net of related debt	6,410,017	6,155,345
Restricted	17,783	17,783
Unrestricted	<u>310,635</u>	<u>189,032</u>
Total net assets	<u>\$ 6,738,435</u>	<u>\$ 6,362,160</u>
Operating revenue		
Revenue from transportation	\$ 8,139,053	\$ 7,857,603
Other	<u>298,258</u>	<u>456,698</u>
Total operating revenues	<u>8,437,311</u>	<u>8,314,301</u>
Operating expenses:		
Transportation services	10,265,391	9,903,532
Other operating expenses	<u>82,176</u>	<u>84,987</u>
Total operating expenses, excluding depreciation	10,347,567	9,988,519
Depreciation and amortization	<u>499,480</u>	<u>520,307</u>
Total operating expenses, including depreciation	<u>10,847,047</u>	<u>10,508,826</u>
Operating loss	<u>(2,409,736)</u>	<u>(2,194,525)</u>
Net nonoperating revenue	<u>1,910,256</u>	<u>1,674,218</u>
Loss before capital grants	(499,480)	(520,307)
Capital grants and contributions	<u>875,755</u>	<u>206,663</u>
Change in net assets	376,275	(313,644)
Beginning of year net assets	<u>6,362,160</u>	<u>6,675,804</u>
End of year net assets	<u>\$ 6,738,435</u>	<u>\$ 6,362,160</u>

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information
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 \$6,738,435. The Authorities total net assets increased by \$376,275 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 increased \$3,646, or 1.9%, due to a increase in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$559,048, or 3.59%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% and for the cost of new services as allowed by law.
- State operating assistance was level funded; federal capital assistance increased while operating assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2011 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:

Transit Equipment	\$ 711,508
Electronic Equipment	49,253
Service Vehicles	38,494
Furniture & Fixtures	76,500
	<u>\$ 875,755</u>

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

At year-end, the Authority had \$3,000,000 of notes outstanding, an increase of \$200,000 from the prior year.

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information
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 2011 assistance will be included in the State's fiscal 2012 budget).

In late summer and early fall of 2010, four cruiseships docked in Gloucester as one of several ports of calls for cruiseline roundtrip cruises from New York to Montreal, Canada. To accommodate cruiseship passengers, CATA developed a deviated route or shuttle within an existing fixed route to transport passengers from cruiseport to restaurants, shops, museums and other historic sites in downtown Gloucester. Additionally, cruiseship passengers also had access to a regular bus stop near the cruiseport for fixed route service to Rockport on an hourly basis. Two trolleys were available for the Gloucester Shuttle and departed every ten minutes. All day passes at a cost of \$3.00 were sold and were valid for all CATA's buses including Rockport. An average of 650 one-day passes were sold generating 2,000 passenger trips from each cruiseship visit. Cruiseship capacity range was from 2,000 to 3,000 passengers with 1,000 crewmembers. We expect at least 6 cruiseships in 2011.

In September of 2010 CATA received delivery of 2 Gillig thirty foot fixed route buses. The buses were funded through ARRA in the amount of \$700,000 and replaced two buses that exceeded their useful life. A 3rd thirty foot Gillig Bus was ordered in the spring of 2011 with a delivery date of October 2011. The bus was funded by an earmark in the amount of \$276,000 and RTA Cap in the amount of \$89,000. In June of 2011 the Department of Transportation allocated \$206,000 to CATA through its State of Good Repair Program for the purchase of two 30 foot fixed route buses.

CATA will also receive delivery of 3 sixteen-passenger vans through the Department of Transportation's (DOT) Mobility Assistance Program (MAP). This program is funded by the Federal Government and is administered by DOT on behalf of the Regional Transit Authorities.

In the spring of 2010, CATA installed an interactive voice response system (IVR) that will allow passengers to access fixed route service information by dialing a number on their cell phones and receiving the following information by text messages: scheduled stop and arrival times and fixed schedule information. In addition, Para-Transit customers will have the ability to review scheduled trips, cancel trips and request a call back by a widely publicized number at CATA. Customers will also be called the night before their trip to remind them of their pick up time. This service will be available 24 hours a day, 7 days a week and available in English and Spanish.

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Management's Discussion and Analysis

CATA entered into a contract with a consulting company to prepare an energy management system for CATA's transportation facility at 3 Pond Road. The first phase of the project is to analyze CATA's energy needs in order to create an energy presentation model. Upon completion of the survey alternative sources of energy such as solar panels and wind turbines will be considered based upon electrical requirements and space requirements. Finally, a software system will be developed to integrate all energy consumption systems to manage CATA's energy needs with the goal of providing all of our energy requirements in-house.

In January of 2010, a new digital state of the art radio system was installed in all of our buses with a new base station in the dispatcher's room and new antennas. The new 27 radios and two hand held radios have superior clarity and very little background noise. The radios have been integrated with a GPS system that allows the dispatcher to view on a 50" screen and personal computer the real time location, speed and stops of all of our buses. The new communications system has also improved the efficiency of our para transit operation. Viewing the location of the vans on the screen, the dispatcher can avoid sending two vehicles to a location when only one vehicle is needed. The GPS system also has a historical component that records on tape past activities of buses showing speed, location and stops at any particular given time.

CAPE ANN TRANSPORTATION AUTHORITY
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Statement of Net Assets

June 30, 2011

Assets

Current assets:

Unrestricted cash and cash equivalents (note 2)	\$ 139,501
Receivables:	
Federal operating assistance	739,113
State contract assistance	1,501,030
Federal capital assistance	143,103
State capital assistance	16,403
Local assessments	614,166
Other	1,268,983
Contractor advances	220,162
Deferred costs	334,776
Total current assets	4,977,237

Non-current assets:

Restricted cash and cash equivalents (notes 2 and 14)	17,783
Deferred costs	384,000
Capital assets, net (note 4)	6,720,652
Total non-current assets	7,122,435
Total Assets	\$ 12,099,672

Liabilities

Current liabilities:

Accounts payable	\$ 1,569,108
Accrued payroll	52,688
Accrued interest payable	44,806
Revenue anticipation notes payable (note 5)	3,000,000
Notes payable - line of credit (Note 6)	180,950
Notes payable - current portion	54,897
Intergovernmental liability (note 8)	384,000
Total current liabilities	5,286,449

Long-term liabilities:

Notes payable - bank (note 7)	74,788
Total liabilities	5,361,237

Net Assets

Invested in capital assets, net of related debt	6,410,017
Restricted	17,783
Unrestricted	310,635
Commitments and Contingencies (note 12)	-
Total net assets	\$ 6,738,435

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, 2011

Operating Revenues:	
Passenger fares	\$ 190,113
Brokerage revenues	7,948,940
Other transit services	205,487
Other Income	92,771
	<hr/>
Total operating revenues	8,437,311
	<hr/>
Operating Expenses:	
Transit service (note 13)	10,265,391
Administrative and general	64,711
Professional services	17,465
Depreciation	499,480
	<hr/>
Total operating expenses	10,847,047
	<hr/>
Operating loss	(2,409,736)
	<hr/>
Non-operating revenues (expense)	
Federal operating assistance	510,627
Commonwealth of Massachusetts contract assistance	1,019,708
Local Assessments	429,062
Interest income	75
Interest expense	(49,216)
	<hr/>
Total non-operating revenues	1,910,256
	<hr/>
Loss before capital grants	(499,480)
	<hr/>
Capital Grants:	
Federal	788,374
Commonwealth of Massachusetts	87,381
	<hr/>
Total capital grants	875,755
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Change in net assets	376,275
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Net assets, beginning of year	6,362,160
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Net assets, end of year	\$ 6,738,435
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See accompanying notes to the financial statements

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

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:	
Passenger fares	\$ 190,113
Brokerage service revenues	8,045,013
Other cash receipts	290,550
Payments to operators	(9,578,245)
Payments to other vendors	(374,918)
Payments to employees for services	(488,879)
Net cash used in operating activities	<u>(1,916,366)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	3,000,000
Principal paid on revenue anticipation notes	(2,800,000)
Proceeds from credit line	180,950
Principal payments on bank loan	(59,347)
Interest paid on bank notes	(11,727)
Interest paid on revenue anticipation notes	(41,833)
Operating and contract assistance	1,627,868
Net cash provided by non-capital financing activities	<u>1,895,911</u>
Cash flows from financing activities:	
Capital grants	847,045
Purchase of capital assets	(875,755)
Net cash provided by capital and related financing activities	<u>(28,710)</u>
Cash flows from investing activities:	
Interest income	75
Net cash provided by investing activities	<u>75</u>
Change in cash and cash equivalents	(49,090)
Cash and cash equivalents, beginning of year	<u>206,374</u>
Cash and cash equivalents, end of year	<u>\$ 157,284</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,409,736)
Adjustments:	
Depreciation	499,480
Changes in assets and liabilities	
Local assessment and other receivables	(83,832)
Contractor advances	18,691
Accounts payable and accrued liabilities	59,031
Net cash used in operating activities	<u>\$ (1,916,366)</u>

See accompanying notes to the financial statements

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

Notes to Financial Statements

June 30, 2011

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.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2011

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.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2010

J. New Accounting Pronouncements

In fiscal 2011 the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 59, *Financial Instruments Omnibus*. The implementation of these standards did not have a material effect on the Authority's financial statements. The GASB has issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Omnibus*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which requires adoption subsequent to June 30, 2011 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 are 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, 2011 \$-0- of the government's bank balance of \$164,561 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.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2011

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 2011 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 7). These funds were withheld by the state from contract assistance payments. There are an additional \$344,776 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, 2011:

	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	5,721,636	-	-	5,721,636
Transit equipment	5,188,953	711,508	794,447	5,106,014
Service equipment	171,117	-	-	171,117
Electronic equipment	208,685	49,253	-	257,938
Service vehicles	133,928	38,494	55,663	116,759
Furniture & fixtures	637,851	76,500	282,163	432,188
Total other capital assets at historical cost	<u>12,062,170</u>	<u>875,755</u>	<u>1,132,273</u>	<u>11,805,652</u>
Less accumulated depreciation for:				
Buildings and improvements	1,119,780	156,066	-	1,275,846
Transit equipment	4,439,446	275,789	794,447	3,920,788
Service equipment	142,641	11,924	-	154,565
Electronic equipment	188,216	8,879	-	197,095
Service vehicles	133,928	5,881	55,663	84,146
Furniture & fixtures	543,782	40,941	282,163	302,560
Total accumulated depreciation	<u>6,567,793</u>	<u>499,480</u>	<u>1,132,273</u>	<u>5,935,000</u>
Other capital assets, net	<u>5,494,377</u>	<u>376,275</u>	<u>-</u>	<u>5,870,652</u>
Total capital assets, net	<u>\$ 6,344,377</u>	<u>376,275</u>	<u>-</u>	<u>6,720,652</u>

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2011

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, 2011, the following changes occurred in the Authority’s revenue anticipation notes (RANS):

Beginning balance	\$ 2,800,000
New notes issued	3,000,000
Notes retired	<u>(2,800,000)</u>
Ending balance	<u><u>\$ 3,000,000</u></u>

The \$3,000,000 of RANS outstanding were issued on July 9, 2010, carried an interest rate of 1.50% and were due July 8, 2011. The Authority refinanced its Revenue Anticipation Notes borrowing \$3,200,000 at an interest rate 1.50% with a due date of July 7, 2012. The Authority uses the proceeds of these notes to fund its mass transit operations.

Note 6. Note Payable – Line of Credit

The Authority entered into a loan agreement with Sovereign Bank for a revolving line of credit in the maximum amount of \$250,000 effective June 2, 2011. The note contains interest at the Lender’s Prime Rate and is due on demand. The loan is secured by all assets of the Authority.

Note 7. 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 contained a variable interest rate and was 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	\$	54,897
2013		58,649
2014		16,139

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Notes to Financial Statements

June 30, 2011

Note 8. Intergovernmental Liability

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, 2011.

Note 9. 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 \$36,634 during the fiscal year.

Note 10. 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, 2011.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2011, expenditures for the Authority's share of health insurance contributions were \$41,650. The Authority purchases insurance for worker's compensation for its employees.

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Notes to Financial Statements

June 30, 2011

Note 11. 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 96.6% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities.

Note 12. 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 13. 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	\$ 12,655,652
Less: Accumulated Depreciation	5,935,000
Less: Outstanding Debt Related to Capital Assets	<u>310,635</u>
Investments in Capital Assets	<u><u>\$ 6,410,017</u></u>

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Notes to Financial Statements

June 30, 2011

Note 14. 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 15. 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 16. 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 17. Subsequent Events

Subsequent events have been evaluated through September 20, 2011, the date on which the financial statements were available to be issued.

Note 18. 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, 2011 was \$75,600. 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.

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Budgetary Comparison Schedule

For the Year Ended June 30, 2011

<u>Expense Description</u>	<u>Original Budget</u>	<u>Actual Expenses</u>	<u>Variance (Over)/Under</u>
Administration			
Personnel	\$ 32,038	48,307	(16,269)
Professional Services	42,579	17,465	25,114
Office and Travel	26,653	16,404	10,249
Debt Service - Interest	76,796	49,216	27,580
Transportation			
Fixed Route	1,798,806	1,644,272	154,534
Special Services	770,917	672,179	98,738
Brokerage Services	<u>6,391,056</u>	<u>7,948,940</u>	<u>(1,557,884)</u>
Total Expenses	<u><u>\$ 9,138,845</u></u>	<u><u>10,396,783</u></u>	<u><u>(1,257,938)</u></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, 2011

	Urbanized Area Service	Rural Area Service	Total Area Service
<u>OPERATING COSTS</u>			
CATA administrative costs	\$ 59,187	22,989	82,176
Purchased services			
Fixed route	1,313,496	330,776	1,644,272
Demand responsive	672,179	-	672,179
Brokerage service	7,948,940	-	7,948,940
Debt service - interest	49,216	-	49,216
Total operating costs	<u>10,043,018</u>	<u>353,765</u>	<u>10,396,783</u>
<u>FEDERAL OPERATING ASSISTANCE</u>			
FTA operating and administrative	487,687	22,940	510,627
Other federal	-	-	-
Total federal assistance	<u>487,687</u>	<u>22,940</u>	<u>510,627</u>
<u>REVENUES</u>			
Operating			
Farebox revenue	146,667	43,446	190,113
Brokerage service reimbursement	7,948,940	-	7,948,940
Other Revenue			
Rental income	75,600	-	75,600
Interest income	75	-	75
Miscellaneous	222,658	-	222,658
Total other revenue	<u>298,333</u>	<u>-</u>	<u>298,333</u>
<u>NET OPERATING DEFICIT</u>	1,161,391	287,379	1,448,770
<u>ADJUSTMENTS</u>			
Extraordinary expenses	-	-	-
<u>NET COST OF SERVICE</u>	1,161,391	287,379	1,448,770
<u>NET COST OF SERVICE FUNDING</u>			
Local assessments	358,581	70,481	429,062
State contract assistance to be funded	802,810	216,898	1,019,708
Less: partial payment made by EOTC after July 1st	762,670	206,053	968,723
Balance requested from the State	40,140	10,845	50,985
<u>UNREIMBURSED DEFICIT</u>	-	-	-

See accompanying independent auditors' report

CAPE ANN TRANSPORTATION AUTHORITY
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Net Cost of Service-Calculation Worksheet and Supplemental Data

For the Year Ended June 30, 2011

Proof calculations and other required information:

A.	Prior year operating expenses, net of fully funded brokerage service	\$ 2,374,955
	Allowable percentage increase:	2.50%
	Prior year, net operating expenses times 2.5%	<u>59,374</u>
	Current year, allowable net operating expenses	<u>2,434,329</u>
	Plus adjustments:	
	ADA expenses	672,179
	Brokerage funded costs	7,948,940
	New service costs	-
	Total allowable operating costs	<u><u>11,055,448</u></u>
B.	Amount of extraordinary expenses	-
	Prior year local assessment	388,990
	Percentage of extraordinary to prior local assessment	0.00%
C.	Aggregate amount of reserve account at June 30	17,783
	Prior year local assessment	388,990
	Percentage of reserve account to prior local assessment	4.57%
D.	State the management fee paid to major service providers as a percentage of operating costs incurred.	4.83%
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.	76.46%

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Schedule of Allocation of Net Operating Deficits

June 30, 2011

	Fixed Route Bus Service Capped	Fixed Route Bus Service Uncapped	Demand Responsive	Human Services	Transit Deficits	General Admin.	Debt Service Interest	Net Cost of Service
Total cost	\$ 1,607,542	36,730	672,179	7,948,940	10,265,391	82,176	49,216	10,396,783
Credits	<u>357,460</u>	<u>6,383</u>	<u>118,617</u>	<u>7,948,940</u>	<u>8,431,400</u>	<u>5,911</u>	<u>75</u>	<u>8,437,386</u>
Net Cost	<u><u>1,250,082</u></u>	<u><u>30,347</u></u>	<u><u>553,562</u></u>	<u><u>-</u></u>	<u><u>1,833,991</u></u>	<u><u>76,265</u></u>	<u><u>49,141</u></u>	<u><u>1,959,397</u></u>
Allocation:								
Federal	337,642	-	139,966	-	477,608	20,583	12,436	510,627
State	655,978	-	297,347	-	953,325	40,075	26,308	1,019,708
Gloucester	202,605	-	87,768	-	290,373	11,243	7,490	309,106
Rockport	53,857	-	22,087	-	75,944	2,941	1,959	80,844
Ipswich	-	30,347	4,650	-	34,997	1,356	903	37,256
Essex	<u>-</u>	<u>-</u>	<u>1,744</u>	<u>-</u>	<u>1,744</u>	<u>67</u>	<u>45</u>	<u>1,856</u>
Total Allocation:	<u><u>\$ 1,250,082</u></u>	<u><u>\$ 30,347</u></u>	<u><u>553,562</u></u>	<u><u>-</u></u>	<u><u>1,833,991</u></u>	<u><u>76,265</u></u>	<u><u>49,141</u></u>	<u><u>1,959,397</u></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