

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

**FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION, AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2018

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2018

Table of Contents

	Page
Management’s Discussion and Analysis – Required Supplementary Information	1-4
Independent Auditor’s Report	5-6
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10-18
Supplementary Information:	
Schedule of Net Cost of Service	19
Schedule of Local Assessments	20
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Prepared in Accordance with <i>Government Auditing Standards</i>	21-22
Summary Schedule of Prior Year Audits	23

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

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, 2018. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 7.

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

The statement of revenues, expenses and changes in net position 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 position – 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 position total reconciles to the net position 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 10 through 18 of the report.

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 4,503,555	\$ 4,419,355
Restricted and noncurrent assets	267,307	282,235
Capital assets, net	7,153,015	7,850,724
Total assets	<u>11,923,877</u>	<u>12,552,314</u>
Current liabilities	2,653,079	2,362,743
Restricted and noncurrent liabilities	2,100,000	2,321,064
Long term liabilities	-	-
Total liabilities	<u>4,753,079</u>	<u>4,683,807</u>
Net position:		
Invested in capital assets, net of related debt	7,153,015	7,850,724
Restricted	17,783	17,783
Unrestricted	-	-
Total net position	<u>\$ 7,170,798</u>	<u>\$ 7,868,507</u>
Operating revenue		
Revenue from transportation	\$ 16,745,339	\$ 16,201,940
Other	90,878	106,645
Total operating revenues	<u>16,836,217</u>	<u>16,308,585</u>
Operating expenses:		
Transportation services	18,887,383	18,268,429
Other operating expenses	100,556	101,532
Total operating expenses, excluding depreciation	<u>18,987,939</u>	<u>18,369,961</u>
Depreciation and amortization	697,709	662,930
Total operating expenses, including depreciation	<u>19,685,648</u>	<u>19,032,891</u>
Operating loss	<u>(2,849,431)</u>	<u>(2,724,306)</u>
Net nonoperating revenue	<u>2,151,722</u>	<u>2,061,376</u>
Loss before capital grants	(697,709)	(662,930)
Capital grants and contributions	-	1,349,061
Change in net position	<u>(697,709)</u>	<u>686,131</u>
Beginning of year net position	<u>7,868,507</u>	<u>7,182,376</u>
End of year net position	<u>\$ 7,170,798</u>	<u>\$ 7,868,507</u>

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$7,170,798. The Authorities total net assets increased by \$697,709 mainly due to the 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 \$2,648, or 1.45%, due to a slight decrease in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$617,978, or 3.36%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- State capital assistance increased; state operating assistance was level funded; federal capital and operating assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2018 amounted to \$7,153,015 (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:

Furniture & fixtures	\$	10,590
----------------------	----	--------

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

At year-end, the Authority had \$2,100,000 of notes outstanding, a decrease of \$185,000 from the prior year.

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

Required Supplementary Information

Management's Discussion and Analysis – Unaudited

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. In Fiscal 2017 the State has continued its funding policy to provide State Contract Assistance currently as opposed reimbursing as in prior years.

CATA participates in the Massachusetts Department of Transportation (MassDOT) Community Transit Grant Program for the replacement of body-on-chassis vehicles used primarily on the demand/response transit service. CATA received a total of three new vehicles in May and June 2018. All three of the vehicles are for use by CATA and replaced older body-on-chassis vehicles that had reached the end of their useful life.

Previously, CATA and the operating company (CATOC) used two different telephone systems. At times, this caused problems for customers because transferring between the two systems was not always successful. CATA worked with Balsam Technology, our local IT support company, to identify requirements and features for the replacement telephone system. The new telephone system was implemented in two phases, with the operating company going live July 2017 and CATA in April 2018. In addition to the telephone upgrade, CATA also replaced several computers that had reached the end of their useful life and upgraded the key card security system. These projects were funded with MassDOT RTACAP and FTA 5307.

In December 2017, CATA awarded a contract for the construction of an ADA accessible restroom on the second floor of the building (City Hall Annex). CATA expects the restroom to be completed and functional by fall 2018. This project is funded with MassDOT RTACAP and FTA 5307. CATA repaired an exterior wall in the maintenance department along with the installation of new insulation and safety mechanisms on the overhead doors.

ROLAND P. LAMBALOT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

184 PLEASANT VALLEY ST.

METHUEN, MA 01844

TELEPHONE (978) 691-0050

FAX (978) 691-0066

INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Cape Ann Transportation Authority

We have audited the accompanying financial statements of the Cape Ann Transportation Authority (the Authority), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net financial position as of and for the year ended June 30, 2018, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Roland P. Lambalot, PC

Methuen, Massachusetts
September 20, 2018

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

Statement of Net Position

June 30, 2018

Assets

Current assets:

Unrestricted cash and cash equivalents (Note 3)	\$ 261,204
Federal operating assistance receivable	291,850
Receivables from cities and towns	602,577
Brokerage accounts receivable	2,983,794
Other receivables	20,050
Contractor advances	303,503
Prepaid expenses	40,577
Total current assets	4,503,555

Restricted and noncurrent assets:

Restricted cash and cash equivalents (Note 3)	17,783
Receivables from cities and towns (Note 10)	217,334
Capital assistance receivables	32,190
Capital assets, net (Note 5)	7,153,015
Total noncurrent assets	7,420,322
Total Assets	\$ 11,923,877

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 2,554,249
Accrued payroll	57,646
Accrued interest payable	41,184
Total current liabilities	2,653,079

Restricted and noncurrent liabilities:

Revenue anticipation notes (Note 6)	2,100,000
Total restricted and noncurrent liabilities	2,100,000
Total Liabilities	\$ 4,753,079

Net Position

Invested in capital assets, net of related debt	\$ 7,153,015
Restricted (Note 12)	17,783
Unrestricted	-
Total Net Position	\$ 7,170,798

See accompanying notes to the financial statements

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2018

Operating Revenues:	
Passenger fares	\$ 180,227
Brokerage revenues	16,382,012
Other transit services	183,100
Other Income	90,878
Total operating revenues	16,836,217
Operating Expenses:	
Transit service	18,497,948
Maintenance	389,435
General Administration	100,556
Total operating expenses excluding depreciation	18,987,939
Depreciation	697,709
Total operating expenses including depreciation	19,685,648
Operating loss	(2,849,431)
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	291,850
Commonwealth of Massachusetts contract assistance	1,321,327
Local Assessments	562,113
Interest expense	(23,568)
Total nonoperating revenues	2,151,722
Change in net position	(697,709)
Net position, beginning of year	7,868,507
Net position, end of year	\$ 7,170,798

See accompanying notes to the financial statements

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

Statement of Cash Flows

Year ended June 30, 2018

Cash flows from operating activities:	
Passenger fares	\$ 180,227
Brokerage service revenues	16,298,055
Other cash receipts	273,978
Payments to operators	(17,874,782)
Payments to other vendors	(374,414)
Payments to employees for services	(576,525)
Net cash used in operating activities	<u>(2,073,461)</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of revenue anticipation notes	2,100,000
Principal paid on revenue anticipation notes	(2,285,000)
Interest paid on revenue anticipation notes	(20,908)
Operating and contract assistance	2,175,290
Net cash provided by noncapital financing activities	<u>1,969,382</u>
Cash flows from capital and related financing activities:	
Capital grants	200,379
Purchase of capital assets	(285,138)
Net cash provided by capital and related financing activities	<u>(84,759)</u>
Change in cash and cash equivalents	(188,838)
Cash and cash equivalents, beginning of year	<u>467,825</u>
Cash and cash equivalents, end of year	<u><u>\$ 278,987</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,849,431)
Adjustments:	
Depreciation	697,709
Changes in assets and liabilities	
Local assessment and other receivables	(147,337)
Contractor advances	(42,511)
Accounts payable and accrued liabilities	268,109
Net cash used in operating activities	<u><u>\$ (2,073,461)</u></u>

See accompanying notes to the financial statements

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

Notes to Financial Statements

June 30, 2018

Note 1. The 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 Massachusetts Department of Transportation.

Note 2. Summary of Significant Accounting Policies

A. 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.

B. 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.

C. 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 3. 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.

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

Notes to Financial Statements

June 30, 2018

D. Accounts Receivable

Accounts receivable are due from various state agencies for services provided to designated individuals. At June 30, 2018 all accounts were deemed collectable. See Note 11 for items in dispute.

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. The vested accrual balance at June 30, 2018 was \$46,405.

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

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.

J. Available Unrestricted Resources

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

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

Notes to Financial Statements

June 30, 2018

K. Statement of Net Position

The statement of net position presents all of the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed of the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

L. Restricted Assets and Restricted Liabilities

Restricted assets are restricted for the acquisition of capital assets and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

M. New Accounting Pronouncements

During Fiscal 2017 GASB the following Statements were adopted and implemented, when necessary, by the Authority. The adoption of these standards did not have a material impact on the Authority's financial statements with the exception of GASB 75 as noted

- No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- No. 81 – *Irrevocable Split-Interest Agreements*
- No. 83 – *Certain Asset Retirement Obligations*
- No. 84 – *Fiduciary Activities*
- No. 85 – *Omnibus*
- No. 86 – *Pension Issues*

The GASB has issued the following statements which require adoption subsequent to June 30, 2018 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the Authority's fiscal practices and financial reports are being evaluated.

- No. 83 – *Certain Asset Retirement Obligations* – effective FY2020
- No. 84 – *Fiduciary Activity* – effective FY2020
- No. 87 – *Leases* – effective FY2021
- No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – effective FY2019
- No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period* – effective FY2021

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

Notes to Financial Statements

June 30, 2018

Note 3. 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, 2018 \$450,829 of the government’s bank balance of \$700,829 was exposed to custodial credit risk as uninsured and uncollateralized.

Note 4. Grants

Under various sections of the Fixing America’s Surface Transportation (FAST) Act, 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 Massachusetts Department 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.

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 2018 was \$1,321,327.

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

Notes to Financial Statements

June 30, 2018

Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2018:

	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	6,264,296	-	-	6,264,296
Transit equipment	4,393,785	-	-	4,393,785
Service equipment	202,446	-	-	202,446
Electronic equipment	459,905	-	-	459,905
Service vehicles	128,375	-	21,500	106,875
Furniture & fixtures	808,090	10,590	55,417	763,263
Total other capital assets at historical cost	<u>12,256,897</u>	<u>10,590</u>	<u>76,917</u>	<u>12,190,570</u>
Less accumulated depreciation for:				
Buildings and improvements	2,327,079	174,240	-	2,501,319
Transit equipment	1,838,957	380,682	-	2,219,639
Service equipment	173,734	6,266	-	180,000
Electronic equipment	274,050	37,857	-	311,907
Service vehicles	54,054	17,575	21,500	50,129
Furniture & fixtures	588,299	91,679	55,417	624,561
Total accumulated depreciation	<u>5,256,173</u>	<u>708,299</u>	<u>76,917</u>	<u>5,887,555</u>
Other capital assets, net	<u>7,000,724</u>	<u>(697,709)</u>	<u>-</u>	<u>6,303,015</u>
Total capital assets, net	<u>\$ 7,850,724</u>	<u>(697,709)</u>	<u>-</u>	<u>7,153,015</u>

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

Notes to Financial Statements

June 30, 2018

Note 6. Revenue Anticipation Notes

At June 30, 2018, the Authority had \$2,100,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 1.1398% and are due July 6, 2018.

	Outstanding at June 30 2017	Issued	Retired	Outstanding at June 30 2018
0.9000% revenue anticipation note	\$ 2,285,000	-	2,285,000	-
1.1398% revenue anticipation note	-	2,100,000	-	2,100,000
Total	\$ 2,285,000	2,100,000	2,285,000	2,100,000

Subsequent to the year end, the Authority retired \$2,100,000 of the notes outstanding at year end. The retirement was financed by the borrowing of \$2,300,000 of revenue anticipation notes; they have a weighted average interest cost of 2.0329% and are due July 3, 2019. The Authority uses the proceeds of these notes to fund its mass transit operations. The RAN is considered short term debt that is expected to be refinanced and is included in the accompanying Statement of Net Position as a noncurrent liability.

Note 7. Note Payable – Line of Credit

The Authority has a line of credit with Santander for a revolving line of credit in the maximum amount of \$750,000 that is due on demand. The note contains interest at the Lender’s Prime Rate plus 1%. The loan is secured by all assets of the Authority. There was no outstanding balance at the end of the year.

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 \$43,069 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.

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

Notes to Financial Statements

June 30, 2018

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, 2018.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2018, expenditures for the Authority's share of health insurance contributions were \$49,475. The Authority purchases insurance for worker's compensation for its employees.

Note 10. Commitments and Contingent Liabilities

A. Fuel Contracts

The Authority has the following contracts outstanding:

<u>Product</u>	<u>Term</u>	<u>Gallons</u>	<u>Price</u>
Unleaded Gasoline	7/1/18 - 6/30/19	35,000	\$ 2.051
Ultra Low Sulfur Diesel	7/1/18 - 6/30/19	40,000	\$ 2.189
Low Sulfur Heating Oil	7/1/18 - 6/30/19	30,000	\$ 2.152

B. Disputed and Other Receivables

The Authority provides transportation services to the Executive Office of Health and Human Services for medical and dayhab programs. There is presently an outstanding receivable for \$467,142 that is in dispute for services provided in November of 2013. The Authority has refuted the state's contention that this amount was remitted during fiscal 2014. The State has denied the Authority's initial appeal. Management will continue to exhaust all available options in order to collect these funds.

The state changed its methodology for reimbursing the Authority for assessments presented in current and past audits. This change affected all transit authorities in the Commonwealth with the exception of the MBTA. CATA has accumulated \$217,334 in shortages going back to fiscal 2000. Discussions have been going on through the Authority's representative, the Massachusetts Association of Regional Transit Authorities (MARTA). Little progress has been made in resolving this matter. The state changed the format of current reimbursement to two years in arrears.

The Authority entered into a five year agreement for management and preventive maintenance services effective July 1, 2018. The agreement is for a three year term ending June 30, 2021 with two additional one-year options exercisable at the Authority's sole discretion at a fixed annual management fee of \$115,000.

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

Notes to Financial Statements

June 30, 2018

C. Legal and Other

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.

Note 11. 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	\$ 13,040,570
Less: Accumulated Depreciation	5,887,555
Less: Outstanding Debt Related to Capital Assets	-
Investments in Capital Assets	<u>\$ 7,153,015</u>

Note 12. 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 13. 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 14. 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.

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

Notes to Financial Statements

June 30, 2018

Note 15. Related Parties

A. City of Gloucester

The Authority has entered in an agreement with the City of Gloucester to lease 10,652 square feet of office space. The initial term of the lease is effective from July 1, 2017 through June 30, 2018 and calls for monthly payments of \$6,900 plus a pro-rata share of heating costs. The City pays its own utilities. The City has the right to extend the lease for four additional one year periods at annual increases of \$100 per month. Rental income for the year ended June 30, 2018 was \$82,800. 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.

B. Massachusetts Department of Transportation

The Authority is deemed to be a related party of the Commonwealth of Massachusetts and the Massachusetts Department of Transportation due to its status as a component unit. Related party transactions consisted of Operating Assistance of \$1,321,327; State Capital Assistance of \$44,168; and Local Assessments of \$562,113 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$819,911 in local operating assistance to be billed to the Communities constituting the Authority and \$17,201 of State Capital Assistance.

Note 16. Executive Compensation

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the “salaries and other compensation of its executive director, officers, board members and other highly compensated employees”. Compensation is defined in the regulation, 801 CMR 53.04 (1) to include “base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time”. The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$71,578 during the fiscal year.

Note 17. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2018 through September 20, 2018, the date the financial statements were available for issuance, and determined that there are no other material items that would require recognition or disclosure in the Authority’s financial statements,

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

Schedule of Net Cost of Service

For the Year Ended June 30, 2018

OPERATING COSTS

CATA administrative costs	\$ 100,556
Purchased services	
Fixed route	1,741,089
Demand responsive	803,080
Brokerage service	16,343,214
Debt service - interest	23,568
Total operating costs	19,011,507

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	291,850
Other federal	-
Total federal assistance	291,850

REVENUES

Operating	
Farebox revenue	180,227
Brokerage service reimbursement	16,382,012
Other Revenue	
Rental income	82,800
Miscellaneous	191,178
Total other revenue	273,978

NET OPERATING DEFICIT 1,883,440

ADJUSTMENTS

Extraordinary expenses	-
------------------------	---

NET COST OF SERVICE 1,883,440

NET COST OF SERVICE FUNDING

Local assessments	562,113
State contract assistance to be funded	1,321,327
Less: state contract assistance received	1,321,327
Balance requested from the State	-

UNREIMBURSED DEFICIT -

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

Schedule of Local Assessments

For the Year Ended June 30, 2018

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2017 as well as the audited amount for fiscal 2018.

	Fiscal 2017 Assessment	Fiscal 2018 Audited
Essex	\$ 2,544	2,608
Gloucester	360,527	369,540
Ipswich	90,102	94,413
Rockport	<u>93,221</u>	<u>95,552</u>
Totals	<u>\$ 546,394</u>	<u>562,113</u>

ROLAND P. LAMBALOT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

184 PLEASANT VALLEY ST.

METHUEN, MA 01844

TELEPHONE (978) 691-0050

FAX (978) 691-0066

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

Advisory Board

Cape Ann Transportation Authority

We have audited, 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 20, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal controls* 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Roland P. Lambalot, PC

Methuen Massachusetts
September 20, 2018

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

Summary Schedule of Prior Year Audits

June 30, 2018

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