

CAPE ANN
TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION
YEAR ENDED JUNE 30, 2014
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2014

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis – Required Supplementary Information	3-6
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	10-17
Supplementary Information:	
Budgetary Comparison Schedule	18
Schedule of Net Cost of Service	19
Schedule of Allocation of Net Operating Deficits	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
Schedule of Findings and Responses	23
Status of Prior Year Audits	24

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 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 Massachusetts Department of Transportation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 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, 2014 and the respective changes in financial position and, where applicable, cash flows for 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 and budgetary comparison information on pages 3 through 6 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.

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 page 20 is presented for purposes of additional analysis and is 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 30, 2014, 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
October 1, 2014

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

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, 2014. 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 17 of the report.

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

Required Supplementary Information
Management's Discussion and Analysis

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 6,106,492	\$ 6,424,821
Capital assets, net	<u>6,649,100</u>	<u>6,936,676</u>
Total assets	<u>12,755,592</u>	<u>13,361,497</u>
Current liabilities	6,088,709	6,023,038
Long term liabilities	<u>-</u>	<u>384,000</u>
Total liabilities	<u>6,088,709</u>	<u>6,407,038</u>
Net position:		
Invested in capital assets, net of related debt	6,299,100	6,386,676
Restricted	17,783	17,783
Unrestricted	<u>350,000</u>	<u>550,000</u>
Total net position	<u>\$ 6,666,883</u>	<u>\$ 6,954,459</u>
Operating revenue		
Revenue from transportation	\$ 10,790,952	\$ 9,674,853
Other	<u>260,577</u>	<u>265,042</u>
Total operating revenues	<u>11,051,529</u>	<u>9,939,895</u>
Operating expenses:		
Transportation services	12,903,466	11,783,060
Other operating expenses	<u>80,598</u>	<u>86,279</u>
Total operating expenses, excluding depreciation	12,984,064	11,869,339
Depreciation and amortization	<u>469,924</u>	<u>473,278</u>
Total operating expenses, including depreciation	<u>13,453,988</u>	<u>12,342,617</u>
Operating loss	<u>(2,402,459)</u>	<u>(2,402,722)</u>
Net nonoperating revenue	<u>1,932,535</u>	<u>1,929,444</u>
Loss before capital grants	(469,924)	(473,278)
Capital grants and contributions	<u>182,348</u>	<u>197,000</u>
Change in net position	<u>(287,576)</u>	<u>(276,278)</u>
Beginning of year net position	<u>6,954,459</u>	<u>7,230,737</u>
End of year net position	<u>\$ 6,666,883</u>	<u>\$ 6,954,459</u>

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

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 \$6,666,883. The Authorities total net assets decreased by \$287,576 mainly due to depreciation of capital assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares decreased \$5,169, or 2.78%, due to a leveling off of ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$1,114,725, or 9.39%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- Federal capital and state operating assistance increased; federal operating assistance and state capital assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2014 amounted to \$6,649,100 (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	\$ 182,348
----------------------	------------

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

At year-end, the Authority had \$3,417,000 of notes outstanding, an increase of \$117,000 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

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 2013 assistance will be included in the State's fiscal 2014 budget). Effective with fiscal 2014 the State has changed its funding policy to provide assistance currently as opposed to reimbursing as in prior years.

The Cape Ann Transportation Advisory Board, on the recommendation of the Administrator, approved the creation of the position of Deputy Administrator/Planner to be effective July 1, 2014. Establishment of this position became necessary because of new federal and state reporting requirements. Also, reports, grant applications, statistical information, personnel information, etc. are all technology and computer based requiring staff to have a background in technology and computer operations. The Deputy Administrator/Planner will also be responsible for planning and in this capacity work closely with the operating company to develop a long range transportation plan for the Authority.

Installation of a 5,000 gallon above ground gasoline storage tank scheduled for the fall of 2013 was delayed because of federal funding problems that have recently been resolved. Construction documents are complete and construction should begin in early fall of 2014. The delivery of gas powered vans, rather than diesel vans from the Department of Transportation's Mobility Assistance Program (MAP), has created a need for an onsite gasoline storage tank. We now have 9 gas-powered vans with a complete conversion within two years of our remaining van fleet. Currently our vans are fueled at a private gas station, which is costly and inefficient. The estimated cost of the project is \$100,000 and includes a 5,000 gallon tank, pumps and canopy.

In accordance with a vote by the Mass State Legislature that all Regional Transit Authorities prepare a Regional Transit Plan, CATA and 9 other Regional Transit Authorities contracted with URS, a consulting company, to prepare CATA's Regional Transit Plan. Nine tasks have been mandated by the Legislature and are as follows; (1) Assessment of Transit Services; (2) ridership trends and service provided by CATA; (3) Performance analysis of existing services; (4) Development and evaluation of alternative service scenarios; (5) Recommendation to better align service with local and regional demands; (6) Commonwealth environmental policies; (7) Fare rates and collection methods; (8) Region's job creation goals and employment need; (9) Determination of whether the regional transit authorities service is deployed in the most effective way possible to accommodate the transit needs of the region's workforce. As required by law, CATA will hold a public hearing upon completion of the draft report to inform and receive input from the public.

See accompanying independent auditor's report

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

Statement of Net Position

June 30, 2014

Assets

Current assets:

Unrestricted cash and cash equivalents (note 2)	\$ 1,970,110
Receivables:	
Federal operating assistance	462,588
Federal capital assistance	49,129
State capital assistance	45,769
Local assessments	620,755
Other	2,336,045
Contractor advances	331,602
Deferred costs	272,711
Total current assets	6,088,709

Non-current assets:

Restricted cash and cash equivalents (notes 2 and 14)	17,783
Capital assets, net (note 4)	6,649,100
Total non-current assets	6,666,883
Total Assets	\$ 12,755,592

Liabilities

Current liabilities:

Accounts payable	\$ 2,223,117
Accrued payroll	47,580
Accrued interest payable	35,410
Revenue anticipation notes payable (note 5)	3,417,000
Notes payable - line of credit (Note 6)	350,000
Due FTA	15,602
Total current liabilities	6,088,709

Net Position

Invested in capital assets, net of related debt	6,299,100
Restricted	17,783
Unrestricted	350,000
Commitments and Contingencies (note 12)	-
Total net position	\$ 6,666,883

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, 2014

Operating Revenues:	
Passenger fares	\$ 180,806
Brokerage revenues	10,610,146
Other transit services	178,143
Other Income	82,434
Total operating revenues	11,051,529
Operating Expenses:	
Transit service (note 13)	12,903,466
Administrative and general	60,309
Professional services	20,289
Depreciation	469,924
Total operating expenses	13,453,988
Operating loss	(2,402,459)
Non-operating revenues (expense)	
Federal operating assistance	325,000
Commonwealth of Massachusetts contract assistance	1,173,779
Local Assessments	462,084
Interest expense	(28,328)
Total non-operating revenues	1,932,535
Loss before capital grants	(469,924)
Capital Grants:	
Federal	137,523
Commonwealth of Massachusetts	44,825
Total capital grants	182,348
Change in net position	(287,576)
Net position, beginning of year	6,954,459
Net position, end of year	\$ 6,666,883

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, 2014

Cash flows from operating activities:	
Passenger fares	\$ 180,806
Brokerage service revenues	10,006,124
Other cash receipts	441,383
Payments to operators	(11,527,929)
Payments to other vendors	(660,849)
Payments to employees for services	(400,328)
Net cash used in operating activities	<u>(1,960,793)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	3,417,000
Principal paid on revenue anticipation notes	(3,300,000)
Proceeds from credit line	350,000
Principal payments on credit line	(550,000)
Interest paid on bank notes	(10,448)
Interest paid on revenue anticipation notes	(25,325)
Operating and contract assistance	3,570,468
Net cash provided by non-capital financing activities	<u>3,451,695</u>
Cash flows from financing activities:	
Capital grants	117,828
Purchase of capital assets	(182,348)
Net cash provided by capital and related financing activities	<u>(64,520)</u>
Change in cash and cash equivalents	1,426,382
Cash and cash equivalents, beginning of year	<u>561,511</u>
Cash and cash equivalents, end of year	<u>\$ 1,987,893</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,402,459)
Adjustments:	
Depreciation	469,924
Changes in assets and liabilities	
Local assessment and other receivables	(201,213)
Contractor advances	21,124
Accounts payable and accrued liabilities	151,831
Net cash used in operating activities	<u>\$ (1,960,793)</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, 2014

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 Massachusetts Department of Transportation.

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
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2014

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
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Financial Statements

June 30, 2014

J. New Accounting Pronouncements

In fiscal 2014 the Authority adopted the provisions of GASB Statement No. 66, *Technical Corrections – 2012*; No. 67, *Reporting for Pension Plans*; No. 68, *Accounting and Financial Reporting for Pensions*; No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards did not have a material effect on the Authority’s financial statements. The GASB has issued Statement No. 69, *Governmental Combinations and Disposal of Government Operations* which requires adoption subsequent to June 30, 2014 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, 2014 \$2,053,991 of the government’s bank balance of \$1,803,991 was exposed to custodial credit risk as uninsured and uncollateralized.

Note 3. Grants

Under various sections of MAP-21, 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.

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

Notes to Financial Statements

June 30, 2014

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 2014 was \$1,152,492. The state operating contract assistance receivable, in the accompanying Statement of Net Assets in prior years, was inclusive of \$481,322 related to funds due from the Commonwealth for prior years; this amount was received as part of the forward funding process. These unfunded amounts consisted of two years of payments against the amount due the Commonwealth (Note 7). These funds were withheld by the state from contract assistance payments. The receipt of these funds has eliminated the receivable and related payable.

Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2014:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 850,000	-	-	850,000
Construction in progress	-	-	-	-
	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>850,000</u>
Total capital assets not being depreciated	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>850,000</u>
Other capital assets:				
Buildings and improvements	6,226,796	-	-	6,226,796
Transit equipment	5,027,493	-	-	5,027,493
Service equipment	171,117	-	-	171,117
Electronic equipment	442,423	-	-	442,423
Service vehicles	90,468	-	-	90,468
Furniture & fixtures	432,188	182,348	137,370	477,166
	<u>12,390,485</u>	<u>182,348</u>	<u>137,370</u>	<u>12,435,463</u>
Total other capital assets at historical cost	<u>12,390,485</u>	<u>182,348</u>	<u>137,370</u>	<u>12,435,463</u>
Less accumulated depreciation for:				
Buildings and improvements	1,615,395	185,484	-	1,800,879
Transit equipment	3,975,778	185,305	-	4,161,083
Service equipment	166,713	1,124	-	167,837
Electronic equipment	95,939	47,897	-	143,836
Service vehicles	70,687	6,416	-	77,103
Furniture & fixtures	379,297	43,698	137,370	285,625
	<u>6,303,809</u>	<u>469,924</u>	<u>137,370</u>	<u>6,636,363</u>
Total accumulated depreciation	<u>6,303,809</u>	<u>469,924</u>	<u>137,370</u>	<u>6,636,363</u>
Other capital assets, net	<u>6,086,676</u>	<u>(287,576)</u>	<u>-</u>	<u>5,799,100</u>
Total capital assets, net	<u>\$ 6,936,676</u>	<u>(287,576)</u>	<u>-</u>	<u>6,649,100</u>

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

Notes to Financial Statements

June 30, 2014

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, 2014, the following changes occurred in the Authority’s revenue anticipation notes (RANS):

Beginning balance	\$ 3,300,000
New notes issued	3,417,000
Notes retired	<u>(3,300,000)</u>
Ending balance	<u>\$ 3,417,000</u>

The \$3,417,000 of RANS outstanding were issued on July 5, 2013, carried an interest rate of 1.00% and was due July 2, 2014. The Authority refinanced its Revenue Anticipation Notes borrowing \$2,153,000 at an interest rate 1.00% with a due date of July 1, 2015. The Authority uses the proceeds of these notes to fund its mass transit operations.

Note 6. 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 expires on June 30, 2015. The note contains interest at the Lender’s Prime Rate plus 1% and is due on demand. The loan is secured by all assets of the Authority. The balance outstanding at the end of the year was \$350,000.

Note 7. Long-Term Debt

In December of 2000 the Authority entered into an agreement with the Commonwealth of Massachusetts to reimburse the state \$960,000 for amounts that were set aside in a reserve for the purchase and rehabilitation of real estate subsequently acquired. These transfers were deemed improper by the state. The agreement called for the Authority to repay \$192,000 for five successive years beginning in 2005 by way of reductions in current state contract assistance. There was no provision for acceleration of amounts due under the agreement. The State effectively eliminated this liability as part of forward funding.

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

Notes to Financial Statements

June 30, 2014

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 \$30,023 during the fiscal year.

Note 9. Risk Management

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2014.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2014, expenditures for the Authority's share of health insurance contributions were \$37,707. The Authority purchases insurance for worker's compensation for its employees.

Note 10. Disaggregation of Receivable and Payable Balances

Receivables are primarily comprised of current intergovernmental receivables representing 91.4% of the balance at year end. The remaining current receivables are comprised of amounts due from vendors and auxiliary revenue sources.

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

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

Notes to Financial Statements

June 30, 2014

Note 11. Commitments and Contingent Liabilities

The Authority entered into a five year agreement for management and preventive maintenance services effective July 1, 2013. The agreement is for a one year term ending June 30, 2014 with four additional one-year options exercisable at the Authority's sole discretion at a fixed annual management fee of \$110,000.

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

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

Note 12. Net Assets – Investments in Capital Assets

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

Cost of Capital Assets Acquired	\$ 13,240,485
Less: Accumulated Depreciation	6,303,809
Less: Outstanding Debt Related to Capital Assets	550,000
Investments in Capital Assets	<u><u>\$ 6,386,676</u></u>

Note 13. Net Assets – Restricted

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

Note 14. Transit Service

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

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

Notes to Financial Statements

June 30, 2014

Note 15. Human Service Transportation

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

Note 16. Related Party

The Authority has entered in an agreement with the City of Gloucester to lease 10,652 square feet of office space. The one year lease is effective July 1, 2011 and calls for monthly payments of \$6,400 plus a pro-rata share of heating costs. The City pays its own utilities. The City has the right to extend the lease for two additional one year periods at annual increases of \$100 per month. Rental income for the year ended June 30, 2014 was \$76,800. 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.

Note 17. 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 \$87,890 during the fiscal year.

Note 18. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2014 through October 1, 2014, 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)

Budgetary Comparison Schedule

For the Year Ended June 30, 2014

<u>Expense Description</u>	<u>Original Budget</u>	<u>Actual Expenses</u>	<u>Variance (Over)/Under</u>
Administration			
Personnel	\$ 51,740	45,416	6,324
Professional Services	12,500	20,289	(7,789)
Office and Travel	8,770	14,893	(6,123)
Debt Service - Interest	40,906	28,328	12,578
Transportation			
Fixed Route	1,854,811	1,786,813	67,998
Special Services	893,057	858,789	34,268
Brokerage Services	<u>9,576,990</u>	<u>10,257,864</u>	<u>(680,874)</u>
Total Expenses	<u>\$ 12,438,774</u>	<u>13,012,392</u>	<u>(573,618)</u>

See accompanying independent auditors' report

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, 2014

OPERATING COSTS

CATA administrative costs	\$ 80,598
Purchased services	
Fixed route	1,786,813
Demand responsive	858,789
Brokerage service	10,257,864
Debt service - interest	28,328
Total operating costs	13,012,392

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	325,000
Other federal	-
Total federal assistance	325,000

REVENUES

Operating	
Farebox revenue	180,806
Brokerage service reimbursement	10,610,146
Other Revenue	
Rental income	76,800
Miscellaneous	183,777
Total other revenue	260,577

NET OPERATING DEFICIT 1,635,863

ADJUSTMENTS

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

NET COST OF SERVICE 1,635,863

NET COST OF SERVICE FUNDING

Local assessments	462,084
State contract assistance to be funded	1,173,779
Less: state contract assistance received	1,173,779
Balance requested from the State	-

UNREIMBURSED DEFICIT -

See accompanying independent auditors' report

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

Schedule of Allocation of Net Operating Deficits

June 30, 2014

	Fixed Route Bus Service Capped	Demand Responsive	Human Services	Transit Deficits	General Admin.	Debt Service Interest	Net Cost of Service
Total cost	\$ 1,786,813	858,789	10,257,864	12,903,466	80,598	28,328	13,012,392
Credits	<u>611,122</u>	<u>182,543</u>	<u>10,257,864</u>	<u>11,051,529</u>	<u>-</u>	<u>-</u>	<u>11,051,529</u>
Net Cost	<u><u>1,175,691</u></u>	<u><u>676,246</u></u>	<u><u>-</u></u>	<u><u>1,851,937</u></u>	<u><u>80,598</u></u>	<u><u>28,328</u></u>	<u><u>1,960,863</u></u>
Allocation:							
Federal	194,870	112,093	-	306,963	13,325	4,712	325,000
State	703,798	404,836	-	1,108,634	48,125	17,020	1,173,779
Gloucester	195,689	120,444	-	316,133	13,873	4,779	334,785
Rockport	51,471	30,270	-	81,741	3,588	1,236	86,565
Ipswich	29,863	6,373	-	36,236	1,589	547	38,372
Essex	<u>-</u>	<u>2,230</u>	<u>-</u>	<u>2,230</u>	<u>98</u>	<u>34</u>	<u>2,362</u>
Total Allocation:	<u><u>\$ 1,175,691</u></u>	<u><u>676,246</u></u>	<u><u>-</u></u>	<u><u>1,851,937</u></u>	<u><u>80,598</u></u>	<u><u>28,328</u></u>	<u><u>1,960,863</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

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 1, 2014.

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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-1 and 2014-2 to be material weaknesses.

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.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-1 and 2014-2.

Response to Findings

Cape Ann Transportation Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 1, 2014

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

Schedule of Findings and Responses

For the Year Ended June 30, 2014

A. Finding Related to the Financial Statements

Material Weakness:

2014-1 – Inadequate controls over brokerage receivables

Condition: There are no written controls over the tracking of receivables billed and amounts collected for services provided to the state under brokerage contracts.

Criteria: The testing of receipts discovered that amounts material to the financial statements for services provided were not remitted by the state. This occurred early in the fiscal year.

Effect: The Authority has to work with the state to determine a method as to how to be reimbursed for this amount of money.

Recommendation: It is recommended that procedures be developed whereby the Authority can track receipts for each type of brokerage service and correspond timely with the state when any collection issues arise.

Response: We concur with the finding that written controls need to be implemented and that these policies will be developed. We have been in contact with the state and their contracted software company as to how to proceed to recover this money.

2014-2 – Inadequate controls over management contract

Condition: There are no controls over the management fee paid as it is not segregated from the money paid to the company that provides transit services.

Criteria: The review of costs incurred by the provider of transit services indicate that amounts in excess of the contracted management fee have been paid on behalf of the management company.

Effect: The excess funds have been charged to the transit service line item and have been reimbursed by federal and state operating assistance in the current and prior year.

Recommendation: Management needs to determine the amount of excess funds paid and recover these amounts. This activity started in a prior year and was brought to management's attention. No follow up occurred.

Response: We concur with this finding and we will examine the management company's records, determine the extent of the excess and recover these funds.

B. Instance of Non-Compliance

Material Weakness:

See finding 2014-1 and 2014-2 above

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

Summary Schedule of Prior Year Audits

June 30, 2014

The audit for the prior year contained a finding that was determined to be significant deficiency. It concerned inadequate controls over grant costs. The proposed recommendations were adopted. No similar findings were noted in the 2014 audit.