

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, 2016
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2016

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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, 2016. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 8.

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

Overview of the Financial Statements

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

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include a statement of net 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 11 through 19 of the report.

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Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 5,007,854	\$ 4,564,265
Restricted and noncurrent assets	231,768	564,145
Capital assets, net	7,164,593	6,875,577
Total assets	<u>12,404,215</u>	<u>12,003,987</u>
Current liabilities	2,685,413	2,559,276
Restricted and noncurrent liabilities	2,536,426	2,551,351
Long term liabilities	-	-
Total liabilities	<u>5,221,839</u>	<u>5,110,627</u>
Net position:		
Invested in capital assets, net of related debt	7,164,593	6,875,577
Restricted	17,783	17,783
Unrestricted	-	-
Total net position	<u>\$ 7,182,376</u>	<u>\$ 6,893,360</u>
Operating revenue		
Revenue from transportation	\$ 14,608,910	\$ 12,808,298
Other	107,735	92,078
Total operating revenues	<u>14,716,645</u>	<u>12,900,376</u>
Operating expenses:		
Transportation services	16,709,298	14,919,350
Other operating expenses	114,585	80,386
Total operating expenses, excluding depreciation	<u>16,823,883</u>	<u>14,999,736</u>
Depreciation and amortization	549,750	460,033
Total operating expenses, including depreciation	<u>17,373,633</u>	<u>15,459,769</u>
Operating loss	<u>(2,656,988)</u>	<u>(2,559,393)</u>
Net nonoperating revenue	<u>2,107,238</u>	<u>2,099,360</u>
Loss before capital grants	(549,750)	(460,033)
Capital grants and contributions	838,766	686,510
Change in net position	289,016	226,477
Beginning of year net position	<u>6,893,360</u>	<u>6,666,883</u>
End of year net position	<u>\$ 7,182,376</u>	<u>\$ 6,893,360</u>

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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 \$7,182,376. The Authorities total net assets increased by \$289,016 mainly due to the acquisition of capital assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares increased \$16,217, or 9.58%, due to an increase of ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$1,824,147, or 12.16%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- State capital and state operating assistance increased; federal capital and operating assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2016 amounted to \$7,164,593 (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:

Buildings and improvements	\$ 37,500
Transit equipment	731,111
Electronic equipment	17,482
Service Vehicles	37,406
Furniture & fixtures	15,267
	<u>\$ 838,766</u>

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

At year-end, the Authority had \$2,500,000 of notes outstanding, an increase of \$347,000 from the prior year.

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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 2016 the State has continued its funding policy to provide State Contract Assistance currently as opposed reimbursing as in prior years.

CATA was included in a bus procurement managed by the Martha's Vineyard RTA. In FY2015, CATA purchased two 30' high floor buses for use on the fixed route service. In FY16, CATA purchased four additional 30' high floor buses for use on the fixed route system. These new vehicles replaced two 1998 RTS/NOVA high floor transit buses and two 2000 RTS/NOVA high floor transit buses.

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 six new vehicles, three in November 2015 and three in June 2016, through this program. These vehicles replaced six body-on-chassis vehicles that had exceeded their useful life (2002, 2004, 2007, and 2008).

CATA also replaced a 1994 Chevy Silverado, which was used as the service truck for the maintenance department. The service truck is used to respond to on-road breakdowns. CATA issued an IFB in late December, bids were due in February, and delivery of the vehicle occurred early May.

CATA repaved the bridge and driveway leading into the parking lot area of CATA's property. In years prior, repairs were made as needed, resulting in a patchwork of paving and the development of large potholes every spring. Working with the City of Gloucester Conservation Committee and a local contractor, CATA removed the existing paving material, properly sloped the driveway area, and constructed a swale for proper drainage.

CATA has been working on the installation of an above ground gasoline fuel storage tank. Currently, gasoline powered CATA vehicles must be fuel off-site at private stations using fuel cards. CATA received delivery of the tank in early 2016. CATA expects the fuel tank project to be finished in the fall of 2016. CATA also undertook several projects to improve the IT infrastructure in both the administration and operating departments. A replacement file server and upgraded Microsoft Office was installed in the operating department. A replacement mail server, for both the administration and operating departments, was installed. This also allowed the administration to implement uniform email addresses for all employees. A failover switch, allowing for redundancy in internet service, was installed for both the administration and operating departments to utilize. CATA also acquired a printer and the appropriate software to begin issuing CharlieCard smart cards for senior and disabled customers.

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Management's Discussion and Analysis – Unaudited

In addition to the IT infrastructure upgrades, CATA transitioned the reservation and billing software for the brokerage operation to an online version. The previous version of the software was outdated and would be no longer supported by the vendor. The newer version is more of an off-the-shelf product, reducing the number of customizations required. The newer version will also allow to CATA submit all billing to the state electronically, which should allow for faster processing and more timely reimbursement to the transportation vendors.

ROLAND P. LAMBALOT, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Cape Ann Transportation Authority

We have audited the accompanying financial statements of the 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, 2016, 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 net position of the Cape Ann Transportation Authority as of June 30, 2016 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 5 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 20 and 21 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 22, 2016, 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 22, 2016

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

Statement of Net Position

June 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 876,072
Federal operating assistance receivable	290,319
Local assessments receivable	523,042
Brokerage accounts receivable	2,874,734
Other receivables	6,700
Contractor advances	415,679
Prepaid expenses	21,308
Total current assets	5,007,854

Restricted and noncurrent assets:

Cash and cash equivalents	17,783
Local assessments receivable	145,815
Capital assistance receivables	68,170
Capital assets, net	7,164,593
Total noncurrent assets	7,396,361

Total Assets	\$ 12,404,215
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Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 2,600,374
Accrued payroll	53,876
Accrued interest payable	31,163
Total current liabilities	2,685,413

Restricted and noncurrent liabilities:

Accounts payable	36,426
Revenue anticipation notes	2,500,000
Total restricted and noncurrent liabilities	2,536,426

Total Liabilities	\$ 5,221,839
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Net Position

Invested in capital assets, net of related debt	\$ 7,164,593
Restricted	17,783
Unrestricted	-
Total Net Position	\$ 7,182,376

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, 2016

Operating Revenues:	
Passenger fares	\$ 185,451
Brokerage revenues	14,248,872
Other transit services	174,587
Other Income	107,735
Total operating revenues	14,716,645
Operating Expenses:	
Transit service	16,297,870
Maintenance	411,428
General Administration	114,585
	16,823,883
Depreciation	549,750
Total operating expenses	17,373,633
Operating loss	(2,656,988)
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	290,319
Commonwealth of Massachusetts contract assistance	1,347,622
Local Assessments	485,477
Interest expense	(16,180)
Total nonoperating revenues	2,107,238
Loss before capital grants	(549,750)
Capital grants and contributions	838,766
Change in net position	289,016
Net position, beginning of year	6,893,360
Net position, end of year	\$ 7,182,376

See accompanying notes to the financial statements

CAPE ANN TRANSPORTATION AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2016

Cash flows from operating activities:	
Passenger fares	\$ 185,451
Brokerage service revenues	13,943,048
Other cash receipts	282,322
Payments to operators	(15,502,964)
Payments to other vendors	(683,430)
Payments to employees for services	(526,349)
Net cash used in operating activities	<u>(2,301,922)</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of revenue anticipation notes	2,500,000
Principal paid on revenue anticipation notes	(2,153,000)
Interest paid on revenue anticipation notes	(6,547)
Operating and contract assistance	2,156,708
Net cash provided by noncapital financing activities	<u>2,497,161</u>
Cash flows from capital and related financing activities:	
Capital grants	881,466
Purchase of capital assets	(863,835)
Net cash provided by capital and related financing activities	<u>17,631</u>
Change in cash and cash equivalents	212,870
Cash and cash equivalents, beginning of year	<u>680,984</u>
Cash and cash equivalents, end of year	<u><u>\$ 893,854</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,656,988)
Adjustments:	
Depreciation	549,750
Changes in assets and liabilities	
Local assessment and other receivables	(242,307)
Contractor advances	(78,514)
Accounts payable and accrued liabilities	126,137
Net cash used in operating activities	<u><u>\$ (2,301,922)</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, 2016

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 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.

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

Notes to Financial Statements

June 30, 2016

D. Accounts Receivable

Accounts receivable are due from various state agencies for services provided to designated individuals. At June 30, 2016 all accounts were deemed collectable.

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, 2016 was \$45,738.

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
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Notes to Financial Statements

June 30, 2016

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. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

N. New Accounting Pronouncements

In February, 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing fair value application guidance, and enhancing disclosures about fair value measurements. The improvements are based in part on the concepts and definitions established in Concept Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority's financial statements.

In June, 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions that not with the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority's financial statements.

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June 30, 2016

In June, 2015, the GASB issued GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify – in context of the current government financial reporting environment – the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework of selecting those principles. The Authority implemented this statement during fiscal year 2016. The adoption of this standard did not have a material impact on the Authority’s financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2016 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority’s fiscal practices and financial reports is being evaluated.

Statement No.	Adoption Required in Fiscal Year	
74	<i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	2017
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans</i>	2018
77	<i>Tax Abatement Disclosures</i>	2017
78	<i>Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</i>	2017
79	<i>Certain External Investment Pools and Pool Participants</i>	2017
80	<i>Blending Requirements for Certain Component Units</i>	2017
81	<i>Irevocable Split-Interest Agreements</i>	2018
82	<i>Pension Issues</i>	2017

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, 2016 \$710,410 of the government’s bank balance of \$960,410 was exposed to custodial credit risk as uninsured and uncollateralized.

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Notes to Financial Statements

June 30, 2016

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 2016 was \$1,347,622.

Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2016:

	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	6,226,796	37,500	-	6,264,296
Transit equipment	5,405,583	756,180	1,864,995	4,296,768
Service equipment	171,117	-	-	171,117
Electronic equipment	442,423	17,482	-	459,905
Service vehicles	90,468	37,406	5,398	122,476
Furniture & fixtures	785,586	15,267	-	800,853
Total other capital assets at historical cost	<u>13,121,973</u>	<u>863,835</u>	<u>1,870,393</u>	<u>12,115,415</u>
Less accumulated depreciation for:				
Buildings and improvements	1,981,652	171,187	-	2,152,839
Transit equipment	4,287,020	198,885	1,839,926	2,645,979
Service equipment	168,961	1,124	-	170,085
Electronic equipment	189,796	46,397	-	236,193
Service vehicles	83,519	8,286	5,398	86,407
Furniture & fixtures	385,448	123,871	-	509,319
Total accumulated depreciation	<u>7,096,396</u>	<u>549,750</u>	<u>1,845,324</u>	<u>5,800,822</u>
Other capital assets, net	<u>6,025,577</u>	<u>314,085</u>	<u>25,069</u>	<u>6,314,593</u>
Total capital assets, net	<u>\$ 6,875,577</u>	<u>314,085</u>	<u>25,069</u>	<u>7,164,593</u>

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

Notes to Financial Statements

June 30, 2016

Note 6. Revenue Anticipation Notes

During the year ended June 30, 2016, the following changes occurred in the Authority's revenue anticipation notes (RANS):

Beginning balance	\$ 2,153,000
New notes issued	2,500,000
Notes retired	<u>(2,153,000)</u>
Ending balance	<u>\$ 2,500,000</u>

The \$2,500,000 of RANS outstanding were issued on July 1, 2015, carried an interest rate of 1.00% and were due July 1, 2016. The Authority refinanced its Revenue Anticipation Notes borrowing \$2,285,000 at an interest rate 0.90% with a due date of July 7, 2017. 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 \$39,425 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
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Notes to Financial Statements

June 30, 2016

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, 2016.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2016, expenditures for the Authority's share of health insurance contributions were \$55,982. 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 89.8% 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 98.0% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities.

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.

Note 12. Net Assets – Investments in Capital Assets

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

Cost of Capital Assets Acquired	\$ 12,965,415
Less: Accumulated Depreciation	5,800,822
Less: Outstanding Debt Related to Capital Assets	-
Investments in Capital Assets	<u>\$ 7,164,593</u>

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

Notes to Financial Statements

June 30, 2016

Note 13. Net Assets – Restricted

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

Note 14. Transit Service

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

Note 15. Human Service Transportation

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

Note 16. 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 lease was effective from December 1, 2014 through June 30, 2015 and calls for monthly payments of \$6,600 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, 2016 was \$80,400. 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 \$1,347,622; State Capital Assistance of \$829,776; and Local Assessments of \$485,477 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$668,857 in local operating assistance to be billed to the Communities constituting the Authority and \$29,969 of State Capital Assistance.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2016

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 \$54,409 during the fiscal year.

Note 18. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2016 through September 22, 2016, 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
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Schedule of Net Cost of Service

For the Year Ended June 30, 2016

OPERATING COSTS

CATA administrative costs	\$ 114,585
Purchased services	
Fixed route	1,846,639
Demand responsive	762,810
Brokerage service	14,099,849
Debt service - interest	16,180
Total operating costs	16,840,063

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	290,319
Other federal	-
Total federal assistance	290,319

REVENUES

Operating	
Farebox revenue	185,451
Brokerage service reimbursement	14,248,872
Other Revenue	
Rental income	80,400
Miscellaneous	201,922
Total other revenue	282,322

NET OPERATING DEFICIT

1,833,099

ADJUSTMENTS

Extraordinary expenses	-
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NET COST OF SERVICE

1,833,099

NET COST OF SERVICE FUNDING

Local assessments	485,477
State contract assistance to be funded	1,347,622
Less: state contract assistance received	1,347,622
Balance requested from the State	-

UNREIMBURSED DEFICIT

-

See accompanying independent auditors' report

CAPE ANN TRANSPORTATION AUTHORITY
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Schedule of Local Assessments

For the Year Ended June 30, 2016

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2015 as well as the audited amount for fiscal 2016.

	Fiscal 2015 Assessment	Fiscal 2016 Audited
Essex	\$ 2,421	2,782
Gloucester	343,155	351,734
Ipswich	39,331	40,314
Rockport	<u>88,729</u>	<u>90,947</u>
Totals	<u>\$ 473,636</u>	<u>485,777</u>

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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, 2016, 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 22, 2016.

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 22, 2016

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

Summary Schedule of Prior Year Audits

June 30, 2016

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