

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION

YEAR ENDED JUNE 30, 2013

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2013

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	10-18
Supplementary Information:	
Budgetary Comparison Schedule	19
Schedule of Net Cost of Service	20
Net Cost of Service – Worksheet and Supplemental Data	21
Schedule of Allocation of Net Operating Deficits	22
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>	23
Schedule of Findings and Responses	25
Status of Prior Year Audits	26

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INDEPENDENT AUDITOR'S REPORT

To the Advisory Board of the
Cape Ann Transportation Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Cape Ann Transportation Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of June 30, 2013 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The supplementary information included on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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. The information has been subjected to the auditing procedures applied in the audit of the 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 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 26, 2013, 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 25, 2013

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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, 2013, 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 25, 2013.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency

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 2013-1.

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
September 25, 2013

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

Schedule of Findings and Responses

For the Year Ended June 30, 2013

A. Finding Related to the Financial Statements

Significant deficiency:

2013-1 – Inadequate Controls Over Grant Costs

Condition: There are limited policies and procedures for the accumulation of costs for capital grant draw downs. Costs are incurred from multiple sources ~~and are not under the control of one designated individual.~~

Criteria: Testing of expenditures discovered that some costs were reimbursed from other funding sources and were not eligible to be considered for a grant in the current year.

Effect: The duplication of expenditures has resulted in an excess draw down of federal funds that is reflected in the Statement of Net Position. This excess draw down is considered an advance of federal funds.

Recommendation: It is recommended that procedures be developed whereby one individual tracks all costs associated with federal and state grants and that all payments for grant costs be made out of one account.

Response: We concur with the finding that CATA has inadequate control over capital grant draw downs and expenditures. CATA administration will develop policies and procedures to consolidate federal grant expenditures and draw downs under one individual and that all payments for grant costs will be made from one account.

B. Instance of Non-Compliance

Significant Deficiency:

See finding 2013-1 above

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

Summary Schedule of Prior Year Audits

June 30, 2013

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

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, 2013. Please read this discussion and analysis in conjunction with the Authority's financial statements which begin on page 7.

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

Overview of the Financial Statements

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

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

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

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

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

The notes to the financial statements provide additional information that is essential to the understanding of the data provided in the basic financial statements and can be found on pages 10 through 18 of the report.

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

Required Supplementary Information
Management's Discussion and Analysis

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 6,424,821	\$ 5,772,291
Capital assets, net	<u>6,936,676</u>	<u>7,212,954</u>
Total assets	<u>13,361,497</u>	<u>12,985,245</u>
Current liabilities	6,023,038	5,738,244
Long term liabilities	<u>384,000</u>	<u>16,264</u>
Total liabilities	<u>6,407,038</u>	<u>5,754,508</u>
Net position:		
Invested in capital assets, net of related debt	6,386,676	6,888,041
Restricted	17,783	17,783
Unrestricted	<u>550,000</u>	<u>324,913</u>
Total net position	<u>\$ 6,954,459</u>	<u>\$ 7,230,737</u>
Operating revenue		
Revenue from transportation	\$ 9,674,853	\$ 8,881,993
Other	<u>265,042</u>	<u>303,353</u>
Total operating revenues	<u>9,939,895</u>	<u>9,185,346</u>
Operating expenses:		
Transportation services	11,783,060	11,164,174
Other operating expenses	<u>86,279</u>	<u>74,828</u>
Total operating expenses, excluding depreciation	11,869,339	11,239,002
Depreciation and amortization	<u>473,278</u>	<u>530,052</u>
Total operating expenses, including depreciation	<u>12,342,617</u>	<u>11,769,054</u>
Operating loss	<u>(2,402,722)</u>	<u>(2,583,708)</u>
Net nonoperating revenue	<u>1,929,444</u>	<u>2,053,656</u>
Loss before capital grants	(473,278)	(530,052)
Capital grants and contributions	<u>197,000</u>	<u>1,022,354</u>
Change in net position	<u>(276,278)</u>	<u>492,302</u>
Beginning of year net position	<u>7,230,737</u>	<u>6,738,435</u>
End of year net position	<u>\$ 6,954,459</u>	<u>\$ 7,230,737</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 \$6,954,459. The Authority's total net assets decreased by \$276,278 mainly due to depreciation of capital assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares increased \$5,898, or 3.07%, due to a decrease in ridership during the year.
- Total operating expenses, excluding depreciation, increased by \$630,667, or 5.61%, due to demand for brokerage services.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- Federal and state operating assistance decreased; federal capital assistance and state capital assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2013 amounted to \$6,936,676 (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 & improvements	<u>\$ 197,000</u>
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The Authority acquires its capital assets under federal capital grants and state matching funds.

At year-end, the Authority had \$3,300,000 of notes outstanding, an increase of \$100,000 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.

On December 19, 2012, bids were opened for the replacement of the 25 year old 35,000 sq. ft. leaking roof on CATA's Transportation Center at 3 Pond Road. CATA received 10 bids ranging in price from a low of \$196,215 to a high of \$378,600. The roof replacement contract was awarded to Rockwell Roofing, the low bidder, in the amount of \$196,215. The project involved the removal of stone, ballast, vinyl roofing and metal flashing and replaced with a rubber roof commonly known as an EPDM.

In the spring of 2013, CATA advertised for a Request for Proposal (RFP) for the management of CATA's fixed route and paratransit services. Two proposals were reviewed for the new 5 year management contract beginning on July 1, 2013. The contract is for one year with four one year renewal options. The successful bidder was Robert Ryan, the current manager of CATA's transit system.

The Cape Ann Transportation Authority's Federal Disadvantaged Business Enterprise Program Plan (DBE) was approved by the Federal Transit Administration (FTA) on May 14, 2013. The objective of the DBE plan is to ensure that CATA will never exclude any person the benefits of, or otherwise discriminate against anyone in connection with the award and performance of any contract on the basis of race, color, sex, or national origin. Policies have been developed to meet our DBE objectives and goals and will be circulated to DBE and Non-DBE business communities that perform work on CATA, FTA assisted contracts.

Looking ahead to 2014, CATA is in the process of preparing plans and specifications for the installation of an above ground 5,000 gallon gasoline storage tank. 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 with 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 the 5,000 gallon tank, pumps, and canopy.

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, 2013

Assets

Current assets:

Unrestricted cash and cash equivalents (note 2)	\$ 543,728
Receivables:	
Federal operating assistance	462,588
State contract assistance	1,561,282
State capital assistance	206,000
Local assessments	669,078
Other	1,732,024
Contractor advances	352,726
Deferred costs	495,612
Total current assets	6,023,038

Non-current assets:

Restricted cash and cash equivalents (notes 2 and 14)	17,783
Deferred costs	384,000
Capital assets, net (note 4)	6,936,676
Total non-current assets	7,338,459
Total Assets	\$ 13,361,497

Liabilities

Current liabilities:

Accounts payable	\$ 2,049,363
Accrued payroll	48,133
Accrued interest payable	38,017
Revenue anticipation notes payable (note 5)	3,300,000
Notes payable - line of credit (Note 6)	550,000
Due FTA	37,525
Total current liabilities	6,023,038

Long-term liabilities:

Intergovernmental liability (note 8)	384,000
Total liabilities	6,407,038

Net Position

Invested in capital assets, net of related debt	6,386,676
Restricted	17,783
Unrestricted	550,000
Commitments and Contingencies (note 12)	-
Total net position	\$ 6,954,459

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, 2013

Operating Revenues:	
Passenger fares	\$ 185,975
Brokerage revenues	9,488,878
Other transit services	174,321
Other Income	90,721
Total operating revenues	<u>9,939,895</u>
Operating Expenses:	
Transit service (note 13)	11,783,060
Administrative and general	65,633
Professional services	20,646
Depreciation	473,278
Total operating expenses	<u>12,342,617</u>
Operating loss	<u>(2,402,722)</u>
Non-operating revenues (expense)	
Federal operating assistance	439,647
Commonwealth of Massachusetts contract assistance	1,079,960
Local Assessments	450,784
Interest expense	(40,947)
Total non-operating revenues	<u>1,929,444</u>
Loss before capital grants	<u>(473,278)</u>
Capital Grants:	
Federal	-
Commonwealth of Massachusetts	197,000
Total capital grants	<u>197,000</u>
Change in net position	(276,278)
Net position, beginning of year	<u>7,230,737</u>
Net position, end of year	<u><u>\$ 6,954,459</u></u>

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, 2013

Cash flows from operating activities:	
Passenger fares	\$ 185,975
Brokerage service revenues	9,283,572
Other cash receipts	265,042
Payments to operators	(11,394,129)
Payments to other vendors	(296,708)
Payments to employees for services	(418,333)
Net cash used in operating activities	<u>(2,374,581)</u>
Cash flows from non-capital financing activities:	
Proceeds from sale of revenue anticipation notes	3,300,000
Principal paid on revenue anticipation notes	(3,200,000)
Proceeds from credit line	520,000
Principal payments on bank loan	(294,913)
Interest paid on bank notes	(16,621)
Interest paid on revenue anticipation notes	(21,472)
Operating and contract assistance	2,541,110
Net cash provided by non-capital financing activities	<u>2,828,104</u>
Cash flows from financing activities:	
Capital grants	197,000
Purchase of capital assets	(197,000)
Net cash provided by capital and related financing activities	<u>-</u>
Change in cash and cash equivalents	453,523
Cash and cash equivalents, beginning of year	<u>107,988</u>
Cash and cash equivalents, end of year	<u>\$ 561,511</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,402,722)
Adjustments:	
Depreciation	473,278
Changes in assets and liabilities	
Local assessment and other receivables	37,007
Contractor advances	(66,913)
Accounts payable and accrued liabilities	(415,231)
Net cash used in operating activities	<u>\$ (2,374,581)</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, 2013

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, 2013

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, 2013

J. New Accounting Pronouncements

In fiscal 2013 the Authority adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 61, *The Financial Reporting Omnibus*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of these standards did not have a material effect on the Authority's financial statements. The GASB has issued Statement No. 66, *Technical Corrections – 2012*; No. 67, *Reporting for Pension Plans*; No. 68, *Accounting and Financial Reporting for Pensions*; No. 69, *Government Combinations and Disposal of Government Operations* and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which require adoption subsequent to June 30, 2013 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, 2013 \$348,820 of the government's bank balance of \$598,820 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, 2013

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 2013 was \$1,079,960. The state operating contract assistance receivable, in the accompanying Statement of Net Assets, is inclusive of \$481,322 related to funds due from the Commonwealth; this amount has not been funded. Unfunded deficits are generally funded via Commonwealth supplemental budgets and the Authority will pursue this avenue. These unfunded amounts consist of two years of payments against the amount due the Commonwealth (Note 7). These funds were withheld by the state from contract assistance payments. There are an additional \$477,262 in costs that have been accumulated that have not been funded by available resources.

Note 4. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2013:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 850,000	-	-	850,000
Construction in progress	39,500	-	39,500	-
Total capital assets not being depreciated	889,500	-	39,500	850,000
Other capital assets:				
Buildings and improvements	5,990,296	236,500	-	6,226,796
Transit equipment	5,459,118	-	431,625	5,027,493
Service equipment	171,117	-	-	171,117
Electronic equipment	619,028	-	176,605	442,423
Service vehicles	116,759	-	26,291	90,468
Furniture & fixtures	432,188	-	-	432,188
Total other capital assets at historical cost	12,788,506	236,500	634,521	12,390,485
Less accumulated depreciation for:				
Buildings and improvements	1,441,243	174,152	-	1,615,395
Transit equipment	4,198,660	208,743	431,625	3,975,778
Service equipment	165,589	1,124	-	166,713
Electronic equipment	220,885	51,659	176,605	95,939
Service vehicles	90,562	6,416	26,291	70,687
Furniture & fixtures	348,113	31,184	-	379,297
Total accumulated depreciation	6,465,052	473,278	634,521	6,303,809
Other capital assets, net	6,323,454	(236,778)	-	6,086,676
Total capital assets, net	\$ 7,212,954	(236,778)	39,500	6,936,676

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

Notes to Financial Statements

June 30, 2013

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, 2013, the following changes occurred in the Authority's revenue anticipation notes (RANS):

Beginning balance	\$ 3,200,000
New notes issued	3,300,000
Notes retired	<u>(3,200,000)</u>
Ending balance	<u>\$ 3,300,000</u>

The \$3,300,000 of RANS outstanding were issued on July 5, 2012, carried an interest rate of 1.25% and was due July 2, 2013. The Authority refinanced its Revenue Anticipation Notes borrowing \$3,417,000 at an interest rate 1.00% with a due date of July 2, 2014. The Authority uses the proceeds of these notes to fund its mass transit operations.

Note 6. Note Payable – Line of Credit

The Authority entered into a loan agreement with Sovereign Bank for a revolving line of credit in the maximum amount of \$250,000 effective June 2, 2011. The loan was modified on July 26, 2012 to increase the limit to \$500,000. The loan was further modified on March 28, 2013 to raise the limit to \$750,000 until September 30, 2013 at which time the maximum loan amount will revert back to \$250,000. 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.

Note 7. Note Payable - Bank

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

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

Notes to Financial Statements

June 30, 2013

Note 8. Long-Term Debt

In December of 2000 the Authority entered into an agreement with the Commonwealth of Massachusetts to reimburse the state \$960,000 for amounts that were set aside in a reserve for the purchase and rehabilitation of real estate subsequently acquired. These transfers were deemed improper by the state. The agreement calls for the Authority to repay \$192,000 for five successive years beginning in 2005 by way of reductions in current state contract assistance. At the time of the agreement the Authority was providing transit brokerage services to various state agencies whereby excess revenues were realized from which the original reserves were created. During fiscal 2004 the Authority lost major contracts under a bid process that reduced the Authority's gross revenue by \$16,014,071. The remaining brokerage contracts were adjusted to effectively eliminate the possibility of significant excess revenues from which the state would be paid back. The Authority has not reduced its current year contract assistance in the audit as excess revenues needed to repay the state were not realized. There is no provision for acceleration of amounts due under the agreement. The Authority is attempting to get the State to discharge this liability and refund all amounts referenced in Note 3. The State did not reduce contract assistance for fiscal year 2007 through 2009. The balance due is \$384,000 at June 30, 2013.

Note 9. Deferred Compensation Plan

The Authority administers a deferred compensation plan through which employees can participate in a voluntary, payroll-deducted retirement program created in accordance with Internal Revenue Code Section 457. The Authority makes contributions up to 7 ½% of an individual's eligible compensation. The deferred compensation is not available to employees until termination, retirement, death approved or unforeseeable emergency. All amounts of compensation deferred, property purchased with those amounts, and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The Authority contributed \$31,448 during the fiscal year.

Note 10. Risk Management

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2013.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2013, expenditures for the Authority's share of health insurance contributions were \$34,145. The Authority purchases insurance for worker's compensation for its employees.

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

Notes to Financial Statements

June 30, 2013

Note 11. Disaggregation of Receivable and Payable Balances

Receivables are primarily comprised of current intergovernmental receivables representing 92.6% 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 95.9% current payables to contractors and vendors with the remaining balance representing deferred employee liabilities and balances due FTA.

Note 12. Commitments and Contingent Liabilities

The Authority had entered into a five year agreement for management and preventative maintenance services effective July 1, 2008. Annual fees started at \$115,000. The management agreement was put out to bid. The new agreement, awarded May 20, 2013, 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 13. Net Assets – Investments in Capital Assets

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

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

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

Notes to Financial Statements

June 30, 2013

Note 14. Net Assets – Restricted

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

Note 15. Transit Service

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

Note 16. Human Service Transportation

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

Note 17. 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, 2013 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 18. 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 \$102,666 during the fiscal year.

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

Notes to Financial Statements

June 30, 2013

Note 19. Subsequent Events

Subsequent events have been evaluated through September 25, 2013, the date on which the financial statements were available to be issued.

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

Budgetary Comparison Schedule

For the Year Ended June 30, 2013

<u>Expense Description</u>	<u>Original Budget</u>	<u>Actual Expenses</u>	<u>Variance (Over)/Under</u>
Administration			
Personnel	\$ 51,740	51,051	689
Professional Services	11,790	20,646	(8,856)
Office and Travel	6,626	14,582	(7,956)
Debt Service - Interest	39,667	40,947	(1,280)
Transportation			
Fixed Route	1,516,232	1,513,009	3,223
Special Services	816,433	861,503	(45,070)
Brokerage Services	<u>9,979,844</u>	<u>9,408,548</u>	<u>571,296</u>
Total Expenses	<u>\$ 12,422,332</u>	<u>11,910,286</u>	<u>512,046</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, 2013

	Urbanized Area Service	Rural Area Service	Total Area Service
<u>OPERATING COSTS</u>			
CATA administrative costs	\$ 86,279	-	86,279
Purchased services			
Fixed route	1,513,008	-	1,513,008
Demand responsive	861,503	-	861,503
Brokerage service	9,408,549	-	9,408,549
Debt service - interest	40,947	-	40,947
Total operating costs	11,910,286	-	11,910,286
<u>FEDERAL OPERATING ASSISTANCE</u>			
FTA operating and administrative	439,647	-	439,647
Other federal	-	-	-
Total federal assistance	439,647	-	439,647
<u>REVENUES</u>			
Operating			
Farebox revenue	185,975	-	185,975
Brokerage service reimbursement	9,488,878	-	9,488,878
Other Revenue			
Rental income	76,800	-	76,800
Miscellaneous	188,242	-	188,242
Total other revenue	265,042	-	265,042
<u>NET OPERATING DEFICIT</u>	1,530,744	-	1,530,744
<u>ADJUSTMENTS</u>			
Extraordinary expenses	-	-	-
<u>NET COST OF SERVICE</u>	1,530,744	-	1,530,744
<u>NET COST OF SERVICE FUNDING</u>			
Local assessments	450,784	-	450,784
State contract assistance to be funded	1,079,960	-	1,079,960
Less: partial payment made by EOTC after July 1st	1,025,962	-	1,025,962
Balance requested from the State	53,998	-	53,998
<u>UNREIMBURSED DEFICIT</u>	-	-	-

See accompanying independent auditors' report

CAPE ANN TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Net Cost of Service-Calculation Worksheet and Supplemental Data
For the Year Ended June 30, 2013

Proof calculations and other required information:

A.	Prior year operating expenses, net of fully funded brokerage service	\$ 2,869,913
	Allowable percentage increase:	<u>2.50%</u>
	Prior year, net operating expenses times 2.5%	<u>71,748</u>
	Current year, allowable net operating expenses	<u>2,941,661</u>
	Plus adjustments:	
	ADA expenses	861,503
	Brokerage funded costs	9,408,549
	New service costs	-
	Total allowable operating costs	<u><u>13,211,713</u></u>
B.	Amount of extraordinary expenses	-
	Prior year local assessment	439,789
	Percentage of extraordinary to prior local assessment	0.00%
C.	Aggregate amount of reserve account at June 30	17,783
	Prior year local assessment	439,789
	Percentage of reserve account to prior local assessment	4.04%
D.	State the management fee paid to major service providers as a percentage of operating costs incurred.	5.08%
E.	State the percentage of benefits paid by the RTA on behalf of RTA employees for:	
	Group life and accidental death insurance	0.00%
	Group health insurance	75.00%
F.	State the brokerage services contracts' costs as a percentage of total operating costs.	79.00%

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

Schedule of Allocation of Net Operating Deficits

June 30, 2013

	Fixed Route Bus Service Capped	Demand Responsive	Human Services	Transit Deficits	General Admin.	Debt Service Interest	Net Cost of Service
Total cost	\$ 1,513,008	861,503	9,408,549	11,783,060	86,279	40,947	11,910,286
Credits	409,195	122,151	9,408,549	9,939,895	-	-	9,939,895
Net Cost	<u>1,103,813</u>	<u>739,352</u>	<u>-</u>	<u>1,843,165</u>	<u>86,279</u>	<u>40,947</u>	<u>1,970,391</u>
Allocation:							
Federal	246,378	164,955	-	411,333	19,213	9,101	439,647
State	605,210	405,201	-	1,010,411	47,195	22,354	1,079,960
Gloucester	178,171	127,911	-	306,082	14,432	6,894	327,408
Rockport	46,864	32,148	-	79,012	3,726	1,780	84,518
Ipswich	27,190	6,768	-	33,958	1,602	765	36,325
Essex	-	2,369	-	2,369	111	53	2,533
Total							
Allocation:	<u>\$ 1,103,813</u>	<u>739,352</u>	<u>-</u>	<u>1,843,165</u>	<u>86,279</u>	<u>40,947</u>	<u>1,970,391</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

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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, 2013, 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 25, 2013.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency

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 2013-1.

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.

Draft

Methuen Massachusetts
September 25, 2013

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

Schedule of Findings and Responses

For the Year Ended June 30, 2013

A. Finding Related to the Financial Statements

Significant deficiency:

2013-1 – Inadequate Controls Over Grant Costs

Condition: There are limited policies and procedures for the accumulation of costs for capital grant draw downs. Costs are incurred from multiple sources and are not under the control of one designated individual.

Criteria: Testing of expenditures discovered that some costs were reimbursed from other funding sources and were not eligible to be considered for a grant in the current year.

Effect: The duplication of expenditures has resulted in an excess draw down of federal funds that is reflected in the Statement of Net Position. This excess draw down is considered an advance of federal funds.

Recommendation: It is recommended that procedures be developed whereby one individual tracks all costs associated with federal and state grants and that all payments for grant costs be made out of one account.

Response: We concur with the finding that CATA has inadequate control over capital grant draw downs and expenditures. CATA administration will develop policies and procedures to consolidate federal grant expenditures and draw downs under one individual and that all payments for grant costs will be made from one account.

B. Instance of Non-Compliance

Significant Deficiency:

See finding 2013-1 above

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

Summary Schedule of Prior Year Audits

June 30, 2013

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

DEBT STATEMENT REPORT

~~~~~

NAME: Cape Ann Transportation Authority

ADDRESS: 3 Pond Road  
Gloucester MA 01930

OUTSTANDING DEBT -- January 1, 2013

BONDS \$ \_\_\_\_\_  
NOTES \$ 3,300,000

DEBT SERVICE REQUIREMENT:

January 1, 2013 - December 31, 2013      BONDS \$ \_\_\_\_\_      PRINCIPAL      INTEREST \$ \_\_\_\_\_

NOTES \$ \_\_\_\_\_      \$ \_\_\_\_\_

January 1, 2014 - December 31, 2014      BONDS \$ \_\_\_\_\_      PRINCIPAL      INTEREST \$ \_\_\_\_\_

NOTES \$ 3,300,000      \$ 40,900.25

FUTURE FINANCING REQUIREMENTS - January 1, 2013 - December 31, 2013

ESTIMATE OF SALE      BOND OR NOTE      PRINCIPAL AMOUNT

July 2013      Note      3,300,000

DATE: October 2012      NAME OF AUTHORIZED OFFICER: Paul F. Talbot

DEBT STATEMENT REPORT  
~~~~~

NAME: Cape Ann Transportation Authority

ADDRESS: 3 Pond Road

Gloucester MA 01930

OUTSTANDING DEBT - January 1, 2013

BONDS \$ _____
NOTES \$ 3,300,000

DEBT SERVICE REQUIREMENT:

		PRINCIPAL	INTEREST
January 1, 2013 - December 31, 2013	BONDS	\$ _____	\$ _____
	NOTES	\$ _____	\$ _____
January 1, 2014 - December 31, 2014	BONDS	\$ _____	\$ _____
	NOTES	\$ 3,300,000	\$ 40,906.25

FUTURE FINANCING REQUIREMENTS - January 1, 2013 - December 31, 2013

ESTIMATE OF SALE

July 2013

BOND OR NOTE

Note

PRINCIPAL AMOUNT

3,300,000

DATE: January 7, 2013

NAME OF AUTHORIZED OFFICER: Paul F. Talbot

ROLAND P. LAMBALOT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

184 PLEASANT VALLEY ST.

METHUEN, MA 01844

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(978) 691-0066

September 30, 2013

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111
Attn: Robert Mahoney

Dear Sirs:

This letter is furnished to you in response to your request for certain representations by us in connection with your audit of the financial statements of the Cape Ann Transportation Authority of the Massachusetts Department of Transportation (MassDOT) for the year ended June 30, 2013.

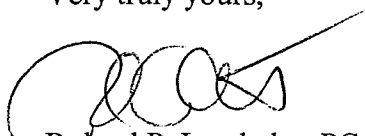
We have been engaged to audit the financial statements of the Cape Ann Transportation Authority for the year ending June 30, 2013. The purpose (and therefore the scope) of our audit is to enable us to express an opinion on the financial statements of the Cape Ann Transportation Authority; accordingly, we will have performed no procedures directed solely toward identifying matters that might affect your report or your audit of the financial statements of the Cape Ann Transportation Authority. In this connection, we represent to you the following:

1. We are familiar with the standards of the American Institute of Certified Public Accountants (Code of Professional Conduct Rule 101 and related interpretations) regarding independence of accountants. We have been independent with respect to the Cape Ann Transportation Authority and its other material component units during the course of audit to the date of this letter. We expect to continue to be independent with respect thereto through the date of our report on our audit of the financial statements of the Cape Ann Transportation Authority; we will inform you promptly if during that period we become aware of any circumstance that impairs our independence.
2. We are aware of Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees (or equivalent body), and advise you that we do not believe that there are any independence matters regarding Roland P. Lambalot, PC and the Cape Ann Transportation Authority that should be discussed with the MassDOT Board related to the year ended June 30, 2013.
3. We are aware that the financial statements of the Cape Ann Transportation Authority for the year ending June 30, 2013 will be included in the general purpose financial statements of MassDot for the year then ending, and that our report on our audit of the financial statements of the Cape Ann Transportation Authority will be used by you as a basis, in part, for your report on your audit of the general purpose financial statements of MassDOT. However, you

have informed us that our report on the Cape Ann Transportation Authority financial statements will not be presented with your auditor's report on the financial statements of MassDOT. Therefore, our Firm should not be referred to by name in such financial statements or in your report thereon.

4. We will review the conformity of the accounting principles used by the Cape Ann Transportation Authority with the accounting policies prescribed by the Government Accounting Standards Board (GASB) and, as applicable, the Financial Accounting Standards Board (FASB) for entities included in the financial statements of MassDOT, and we will advise you of any material departures there from that come to our attention.
5. We are familiar with OMB Circular A-113, "Audit of State, Local Governments, and Non-Profit Organizations": and AICPA SOP 98-3, "Audits of State, Local Governments, and Not-for Profit Organizations Receiving Federal Awards". We are conducting our audit and will report on the results thereof in accordance with this Circular and Statement. The amount of federal awards expended by the Cape Ann Transportation Authority for the year ended June 30, 2013 totaled \$439,647.
6. We will conduct our audit of the Cape Ann Transportation Authority's financial statements in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, and we will inform you promptly of any management or other circumstances.
7. We are familiar with accounting principles generally accepted in the United States of America and with the generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and the *Government Auditing Standards* issued by the Comptroller General of the United States. We are conducting our audit and will report on the results thereof in accordance with those standards.

Very truly yours,



Roland P. Lambalot, PC