

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, 2020

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2020

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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, 2020, and the related statement of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cape Ann Transportation Authority as of June 30, 2020 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 3 through 6 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 30, 2020, 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 30, 2020

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, 2020. 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 Felicia Webb, 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 19 of the report.

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 2,497,558	\$ 4,760,998
Restricted and noncurrent assets	376,781	458,995
Capital assets, net	6,521,843	7,248,774
Total assets	<u>9,396,182</u>	<u>12,468,767</u>
Current liabilities	482,631	2,732,519
Restricted and noncurrent liabilities	2,373,925	2,469,691
Long term liabilities	-	-
Total liabilities	<u>2,856,556</u>	<u>5,202,210</u>
Net position:		
Invested in capital assets, net of related debt	6,521,843	7,248,774
Restricted	17,783	17,783
Unrestricted	-	-
Total net position	<u>\$ 6,539,626</u>	<u>\$ 7,266,557</u>
Operating revenue		
Revenue from transportation	\$ 14,510,300	\$ 17,823,816
Other	136,455	108,897
Total operating revenues	<u>14,646,755</u>	<u>17,932,713</u>
Operating expenses:		
Transportation services	16,555,857	19,890,125
Other operating expenses	110,829	109,307
Total operating expenses, excluding depreciation	<u>16,666,686</u>	<u>19,999,432</u>
Depreciation and amortization	726,931	773,144
Total operating expenses, including depreciation	<u>17,393,617</u>	<u>20,772,576</u>
Operating loss	<u>(2,746,862)</u>	<u>(2,839,863)</u>
Net nonoperating revenue	<u>2,019,931</u>	<u>2,066,719</u>
Loss before capital grants	(726,931)	(773,144)
Capital grants and contributions	-	868,903
Change in net position	<u>(726,931)</u>	<u>95,759</u>
Beginning of year net position	<u>7,266,557</u>	<u>7,170,798</u>
End of year net position	<u>\$ 6,539,626</u>	<u>\$ 7,266,557</u>

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Financial Highlights

The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$6,539,626. The Authorities total net assets decreased by \$726,931 mainly due to the depreciation of fixed assets. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares decreased \$45,668, or 24.20%, due to the decision to stop collecting fares in response to the pandemic.
- Total operating expenses, excluding depreciation, decreased by \$3,332,746, or 16.66%, due to the cessation of most brokerage services as a result of the pandemic.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law.
- State capital assistance decreased; state operating assistance increased; federal capital and operating assistance decreased.

Capital Assets and Debt

The Authority's capital assets as of June 30, 2020 amounted to \$6,521,843 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

There were no capital asset additions during the fiscal year.

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

At year-end, the Authority had \$2,300,000 of notes outstanding, no change from the prior year.

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information

Management's Discussion and Analysis – Unaudited

Economic Factors and Next Year's Budgets

The Cape Ann Transportation Authority felt the effects of COVID-19 during the second half of FY20, much like the rest of the world. Both fixed route and demand response transit ridership plummeted and program-based brokerage services were cancelled. In response to COVID-19, CATA suspended fare collection enforcement and restructured the fixed route service in order to better serve the remaining customers. CATA also invested in personal protective equipment (PPE) for employees and contractors, as well as disinfecting cleaners and equipment for the building and vehicles.

With funding through MassDOT, CATA launched a new demand response service in March 2020, providing transportation six days per week to the closest dialysis clinic. CATA also partnered with the City of Gloucester Health Department's Mass in Motion to provide transportation from housing authority locations to nutrition and physical activities, starting October 2019. Both the dialysis and Mass in Motion transit services were utilized during COVID-19, as they provided access to essential services. CATA's FY19 discretionary grant was cancelled as a result of COVID-19 and the predicted impact on transit ridership.

The Town of Hamilton joined CATA in December 2019. CATA is working with the Town of Essex and the Town of Hamilton on services expected to launch in summer/fall of FY21, depending on COVID and required precautions.

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

Statement of Net Position

June 30, 2020

Assets

Current assets:

Unrestricted cash and cash equivalents (Note 3)	\$ 487,684
Federal operating assistance receivable	36,911
Receivables from cities and towns	562,128
Brokerage accounts receivable	725,920
Other receivables	22,192
Contractor advances	640,957
Prepaid expenses	21,766
Total current assets	2,497,558

Restricted and noncurrent assets:

Restricted cash and cash equivalents (Note 3)	17,783
Receivables from cities and towns (Note 10)	321,837
Capital assistance receivables	37,161
Capital assets, net (Note 5)	6,521,843
Total noncurrent assets	6,898,624
Total Assets	\$ 9,396,182

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 420,477
Accrued payroll	16,282
Accrued interest payable	45,872
Total current liabilities	482,631

Restricted and noncurrent liabilities:

Accounts payable	31,087
Compensated absences	42,838
Revenue anticipation notes (Note 6)	2,300,000
Total restricted and noncurrent liabilities	2,373,925
Total Liabilities	\$ 2,856,556

Net Position

Invested in capital assets, net of related debt	\$ 6,521,843
Restricted (Note 12)	17,783
Unrestricted	-
Total Net Position	\$ 6,539,626

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, 2020

Operating Revenues:	
Passenger fares	\$ 143,035
Brokerage revenues	13,699,356
Other transit services	667,909
Other Income	<u>136,455</u>
Total operating revenues	<u>14,646,755</u>
Operating Expenses:	
Transit service	16,195,094
Maintenance	360,763
General Administration	<u>110,829</u>
Total operating expenses excluding depreciation	16,666,686
Depreciation	<u>726,931</u>
Total operating expenses including depreciation	<u>17,393,617</u>
Operating loss	<u>(2,746,862)</u>
Nonoperating revenues (expense)	
Operating assistance grants	
Federal operating assistance	36,911
Commonwealth of Massachusetts contract assistance	1,429,794
Local Assessments	590,570
Interest income	2,688
Interest expense	<u>(40,032)</u>
Total nonoperating revenues	<u>2,019,931</u>
Change in net position	(726,931)
Net position, beginning of year	<u>7,266,557</u>
Net position, end of year	<u><u>\$ 6,539,626</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, 2020

Cash flows from operating activities:	
Passenger fares	\$ 143,035
Brokerage service revenues	16,138,222
Other cash receipts	807,052
Payments to operators	(18,426,437)
Payments to other vendors	(294,104)
Payments to employees for services	(457,262)
Net cash used in operating activities	<u>(2,089,494)</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of revenue anticipation notes	2,300,000
Principal paid on revenue anticipation notes	(2,300,000)
Interest paid on revenue anticipation notes	(56,356)
Operating and contract assistance	2,187,238
Net cash provided by noncapital financing activities	<u>2,130,882</u>
Cash flows from capital and related financing activities:	
Capital grants	<u>232,796</u>
Net cash provided by capital and related financing activities	<u>232,796</u>
Change in cash and cash equivalents	274,184
Cash and cash equivalents, beginning of year	<u>231,283</u>
Cash and cash equivalents, end of year	<u><u>\$ 505,467</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,746,862)
Adjustments:	
Depreciation	726,931
Changes in assets and liabilities	
Local assessment and other receivables	2,568,829
Contractor advances	(34,283)
Accounts payable and accrued liabilities	(2,604,109)
Net cash used in operating activities	<u><u>\$ (2,089,494)</u></u>

See accompanying notes to the financial statements

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2020

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, Essex, and Hamilton. In accordance with requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Massachusetts Department of Transportation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets. The principal revenues of the Authority are fare box revenues received from patrons. The Authority also recognizes as operating revenue the rental fees received from vendors from operating leases of Authority property. Operating expenses for the Authority include the costs of operating mass transit and demand responsive services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Budget

The Authority must establish an operating budget each year so that the amount will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, less (b) the aggregate of all revenue and transfers projected to be received by the Authority, including available surplus funds. The budget for all operations of the Authority is prepared by the Administrator and is acted upon by the Advisory Board. The budget is prepared on the accrual basis. Depreciation is not recognized as an expense, but capital outlays are recognized as expenses for budgetary control purposes. These expenses are reclassified for the purpose of preparing financial reports in accordance with GAAP.

C. Cash and Cash Equivalents

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized or covered by federal deposit insurance except as stated in Note 3. The carrying amount of the cash equivalents is fair value. For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2020

D. Accounts Receivable

Accounts receivable are due from various state agencies for services provided to designated individuals. At June 30, 2020 all accounts were deemed collectable. See Note 10 and 18 for items in dispute.

E. Compensated Absences

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies. The vested accrual balance at June 30, 2020 was \$42,838.

F. Capital Assets

Capital assets are stated at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in condition for use. Capital assets are defined as assets with initial, individual costs exceeding \$5,000.

G. Depreciation

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

Buildings	20-40 years
Vehicles	5-12 years
Passenger Shelters	5 years
Furniture, fixtures and equipment	5-7 years

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

I. Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of investments, cash equivalents and grants receivable. The Authority's cash equivalents were with various credit-worthy financial institutions; investments consisted of a collateralized repurchase agreement and grants receivable were due from Federal, State and local assessments. The Authority considers the credit risk associated with financial instruments to be minimal.

J. Available Unrestricted Resources

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

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

Notes to Financial Statements

June 30, 2020

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. Implementation of GASB Pronouncements

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

There were no GASB pronouncements required to be implemented in fiscal 2020 that impacted the Authority's financial statements.

The GASB has issued the following statements which require adoption subsequent to June 30, 2019 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the Authority's fiscal practices and financial reports are being evaluated.

- No. 84 – *Fiduciary Activity* – effective FY2021
- No. 87 – *Leases* – effective FY2022
- No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period* – effective FY2022
- No. 90 – *Major Equity Interests* – effective FY2021
- No. 91 – *Conduit Equity Obligations* – effective FY2023
- No. 92 – *Omnibus 2020* – effective FY2022
- No. 93 – *Replacement of Interbank Offered Rates* – effective FY2022
- No. 94 – *Private-Public and Public-Public Partnership and Availability Payment Arrangements* – effective FY 2023
- No. 96 – *Subscription-Based Information Technology Arrangements* – effective FY2023

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2020

- No. 97 – *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment on GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32 – effective FY2022*

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, 2020 \$467,092 of the government’s bank balance of \$717,092 was exposed to custodial credit risk as uninsured and uncollateralized.

Note 4. Grants

Under various sections of the Fixing America’s Surface Transportation (FAST) Act, the United States Department of Transportation approves capital grants to fund up to 80% of the Authority’s capital improvement projects. The remaining portion of approximately 20% will be financed through the Massachusetts Department of Transportation. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. In addition the Federal government may fund up to 80% of the Authority’s preventative maintenance and complementary ADA services costs, as defined.

The Authority has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation under which the Commonwealth will pay the Authority a portion of its net cost of service. The amount of this contract assistance for fiscal year 2020 was \$1,429,794.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2020

Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2020:

	Beginning balance	Additions	Disposals	Ending balance
Capital assets not being depreciated:				
Land	\$ 850,000	-	-	850,000
Total capital assets not being depreciated	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>850,000</u>
Other capital assets:				
Buildings and improvements	6,264,296	-	-	6,264,296
Transit equipment	4,815,776	-	-	4,815,776
Service equipment	218,411	-	-	218,411
Electronic equipment	459,905	-	-	459,905
Service vehicles	87,878	-	-	87,878
Furniture & fixtures	763,263	-	-	763,263
Total other capital assets at historical cost	<u>12,609,529</u>	<u>-</u>	<u>-</u>	<u>12,609,529</u>
Less accumulated depreciation for:				
Buildings and improvements	2,675,559	172,856	-	2,848,415
Transit equipment	2,240,452	451,760	-	2,692,212
Service equipment	186,665	7,862	-	194,527
Electronic equipment	349,764	37,857	-	387,621
Service vehicles	48,708	17,576	-	66,284
Furniture & fixtures	709,607	39,020	-	748,627
Total accumulated depreciation	<u>6,210,755</u>	<u>726,931</u>	<u>-</u>	<u>6,937,686</u>
Other capital assets, net	<u>6,398,774</u>	<u>(726,931)</u>	<u>-</u>	<u>5,671,843</u>
Total capital assets, net	<u>\$ 7,248,774</u>	<u>(726,931)</u>	<u>-</u>	<u>6,521,843</u>

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

Notes to Financial Statements

June 30, 2020

Note 6. Revenue Anticipation Notes

At June 30, 2020, the Authority had \$2,300,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 1.6985% and are due July 2, 2020.

	Outstanding at June 30 2019	Issued	Retired	Outstanding at June 30 2020
2.0329% revenue anticipation note	\$ 2,300,000	-	2,300,000	-
1.6985% revenue anticipation note	-	2,300,000	-	2,300,000
Total	\$ 2,300,000	2,300,000	2,300,000	2,300,000

Subsequent to the year end, the Authority retired \$2,300,000 of the notes outstanding at year end. The retirement was financed by the borrowing of \$2,560,000 of revenue anticipation notes; they have a weighted average interest cost of 1.0397% and are due July 1, 2021. 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 \$33,975 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.

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June 30, 2020

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, 2020.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2020, expenditures for the Authority's share of health insurance contributions were \$61,704. The Authority purchases insurance for worker's compensation for its employees.

Note 10. Commitments and Contingent Liabilities

A. Fuel Contracts

The Authority has the following contracts outstanding:

<u>Product</u>	<u>Term</u>	<u>Gallons</u>	<u>Price</u>
Unleaded Gasoline	4/1/20 - 12/31/21	35,000	\$ 1.231
Ultra Low Sulfur Diesel	4/1/20 - 12/31/21	35,000	\$ 1.539
Low Sulfur Heating Oil	4/1/20 - 12/31/21	20,000	\$ 2.000

B. Disputed and Other Receivables

The Authority provides transportation services to the Executive Office of Health and Human Services for medical and dayhab programs. There is presently an outstanding receivable for \$467,142 that is in dispute for services provided in November of 2013. The Authority has refuted the state's contention that this amount was remitted during fiscal 2014. The State has denied the Authority's initial appeal. The Authority has filed suit to collect these funds. The case is scheduled to be heard in 2021. See Note 18.

In October of 2009 the Executive Office of Health and Human Services filed a report with the Authority assessing CATA alleging overpayments of \$115,590 for services delivered under the Massachusetts Medicaid program. The Authority appealed the initial computation based on the very limited sample taken of trips reviewed. The small number of trips were then extrapolated across the universe of those provided to EOHS under the reviewed program. The dates of service covered the period from October 1, 2002 through September 20, 2003. This matter was included in the Authority's financial statement footnotes through June 30, 2014. During the prior fiscal year the Commonwealth withheld the above amount from remittances to the Authority for current services provided. The Authority has set up a receivable for the funds they feel were inappropriately taken and have forwarded an appeal to the state on this issue. The State's position regarding the timing of the withdrawals is that there is no statute of limitations applicable to the state. The Authority feels that this is an unjust application of law for services provided over sixteen years ago. The Authority has instituted suit to recover these funds. See Note 18.

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The state changed its methodology for reimbursing the Authority for assessments presented in current and past audits. This change affected all transit authorities in the Commonwealth with the exception of the MBTA. CATA has accumulated \$246,566 in shortages going back to fiscal 2000. Discussions have been going on through the Authority's representative, the Massachusetts Association of Regional Transit Authorities (MARTA). Little progress has been made in resolving this matter. The state changed the format of current reimbursement to two years in arrears.

C. Commitments

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

D. Legal and Other

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

During the current year the Authority was named in a lawsuit filed by the General Manager of the management company engaged to provide transportation services. The basis of the suit is the determination of the General Manager's status as either an employee of CATA or an independent contractor. Defense counsel for CATA has moved to dismiss two counts on the pleadings alone for failure to state a claim and will be seeking Summary Judgement on the remainder. It is counsel's opinion that the case is without merit and will not have any effect on the Authority's financial position.

Note 11. Net Assets – Investments in Capital Assets

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

Cost of Capital Assets Acquired	\$ 13,459,529
Less: Accumulated Depreciation	6,937,686
Less: Outstanding Debt Related to Capital Assets	-
Investments in Capital Assets	<u>\$ 6,521,843</u>

Note 12. Net Assets – Restricted

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

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Notes to Financial Statements

June 30, 2020

Note 13. Transit Service

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

Note 14. Human Service Transportation

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

Note 15. Related Parties

A. City of Gloucester

The Authority has entered in an agreement with the City of Gloucester to lease 10,652 square feet of office space. The initial term of the lease is effective from July 1, 2017 through June 30, 2018 and calls for monthly payments of \$6,900 plus a pro-rata share of heating costs. The City pays its own utilities. The City has the right to extend the lease for four additional one year periods at annual increases of \$100 per month. Rental income for the year ended June 30, 2020 was \$85,200. 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. The lease was subsequently revised to add another 500 square feet of space at a rate of \$450 per month for the first year and \$460 for the second year. The term for additional space ends June 30, 2022.

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 \$1,429,794; State Capital Assistance of \$142,738; and Local Assessments of \$590,570 to be paid to the Authority by the Commonwealth and federal pass-through funds of \$18,673 under the mobility assistance program. Related party receivables consist of \$883,965 in local operating assistance to be billed to the Communities constituting the Authority, \$31,087 of State Capital Assistance, and \$18,673 in pass-through funds.

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Notes to Financial Statements

June 30, 2020

Note 16. Executive Compensation

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the “salaries and other compensation of its executive director, officers, board members and other highly compensated employees”. Compensation is defined in the regulation, 801 CMR 53.04 (1) to include “base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time”. The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$130,152 during the fiscal year.

Note 17. COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020 the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 15, 2020, Governor Baker ordered the closure of the physical location of every “non-essential” business for what was an extended period of time. The immediate impact on our operations has been the reduction in fixed route and demand response services as well as the elimination of fares from mid-March. Certain fully funded brokerage services were discontinued with little financial effect. Future potential impacts may include disruptions or restrictions on our employees’ ability to work and impairment of our ability to provide vital transportation services. The future effects of these issues are unknown.

In April of 2020 the Authority was awarded \$1,587,875 in CARES ACT funding through the Federal Transit Administration. This money is available to be drawn down to offset revenue losses as well as cover additional expenses related to potential restrictions placed on the operation of the Authority’s transit services. Activities covered under this grant were retroactive to January 20, 2020 and will continue until spent.

Note 18. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2020 through September 30, 2020, the date the financial statements were available for issuance, and determined that there were material items that would require recognition or disclosure in the Authority’s financial statements, in addition to the RAN refinancing discussed in Note 6.

Subsequent to the year end, settlements regarding disputed receivables referred to in Note 10 were reached with the State Executive Office of Health and Human Services. The carrying value of those balances were reduced to the agreed upon amounts in these financial statements.

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Schedule of Net Cost of Service

For the Year Ended June 30, 2020

<u>OPERATING COSTS</u>	
CATA administrative costs	\$ 110,829
Purchased services	
Fixed route	1,919,231
Demand responsive	835,261
Brokerage service	13,801,365
Debt service - interest	40,032
Total operating costs	16,706,718
<u>FEDERAL OPERATING ASSISTANCE</u>	
FTA operating and administrative	36,911
Other federal	-
Total federal assistance	36,911
<u>REVENUES</u>	
Operating	
Farebox revenue	143,035
Brokerage service reimbursement	13,699,356
Other Revenue	
Rental income	85,200
Interest income	2,688
Miscellaneous	719,164
Total other revenue	807,052
<u>NET OPERATING DEFICIT</u>	2,020,364
<u>ADJUSTMENTS</u>	
Extraordinary expenses	-
<u>NET COST OF SERVICE</u>	2,020,364
<u>NET COST OF SERVICE FUNDING</u>	
Local assessments	590,570
State contract assistance to be funded	1,429,794
Less: state contract assistance received	1,429,794
Balance requested from the State	-
<u>UNREIMBURSED DEFICIT</u>	-

See accompanying independent auditors' report

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Schedule of Local Assessments

For the Year Ended June 30, 2020

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2019 as well as the audited amount for fiscal 2020.

	Fiscal 2019 Assessment	Fiscal 2020 Audited
Essex	\$ 2,673	2,740
Gloucester	378,779	388,248
* Hamilton	-	-
Ipswich	96,773	99,192
Rockport	<u>97,941</u>	<u>100,390</u>
Totals	<u>\$ 576,166</u>	<u>590,570</u>

* The town of Hamilton did not receive service in fiscal 2020, the year it joined the Authority.

ROLAND P. LAMBALOT, P.C.

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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, 2020, 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 30, 2020.

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) as a basis for designing 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 30, 2020

CAPE ANN TRANSPORTATION AUTHORITY
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Summary Schedule of Prior Year Audits

June 30, 2020

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