

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, 2021

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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

Year Ended June 30, 2021

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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, 2021, 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, 2021 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 22 and 23 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 October 1, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Roland P. Lambalot, PC

Methuen, Massachusetts
October 1, 2021

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, 2021. 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 21 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Current assets	\$ 3,273,516	\$ 2,497,558
Restricted and noncurrent assets	2,418,437	376,781
Capital assets, net	<u>5,737,507</u>	<u>6,521,843</u>
Total assets	<u>11,429,460</u>	<u>9,396,182</u>
Current liabilities	1,208,521	482,631
Restricted and noncurrent liabilities	4,483,432	2,373,925
Long term liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>5,691,953</u>	<u>2,856,556</u>
Net position:		
Invested in capital assets, net of related debt	5,737,507	6,521,843
Restricted	-	17,783
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$ 5,737,507</u>	<u>\$ 6,539,626</u>
Operating revenue		
Revenue from transportation	\$ 13,542,512	\$ 14,510,300
Other	<u>100,451</u>	<u>136,455</u>
Total operating revenues	<u>13,642,963</u>	<u>14,646,755</u>
Operating expenses:		
Transportation services	14,011,344	16,555,857
Other operating expenses	<u>124,870</u>	<u>110,829</u>
Total operating expenses, excluding depreciation	14,136,214	16,666,686
Depreciation and amortization	<u>784,336</u>	<u>726,931</u>
Total operating expenses, including depreciation	<u>14,920,550</u>	<u>17,393,617</u>
Operating loss	<u>(1,277,587)</u>	<u>(2,746,862)</u>
Net nonoperating revenue	2,370,019	2,019,931
Additions to reserves	<u>(1,876,768)</u>	<u>-</u>
Change in net position	(784,336)	(726,931)
Beginning of year net position	6,539,626	7,266,557
Prior period adjustment (Note 18)	<u>(17,783)</u>	<u>-</u>
End of year net position	<u>\$ 5,737,507</u>	<u>\$ 6,539,626</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 \$5,737,507. The Authorities total net assets decreased by \$784,336 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 \$76,210, or 53.28%, due to the decision to stop collecting fares during July and August, extension of student passes to January 2021 and a reduction in ridership.
- Total operating expenses, excluding depreciation, decreased by \$2,611,097, or 15.67%, due to the reduction of most brokerage services as a result of the pandemic.
- Revenues from assessments from member municipalities increased 2.5% as allowed by law plus the cost of new services.
- 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, 2021 amounted to \$5,737,507 (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 \$2,560,000 of notes outstanding, an increase of \$260,000 over 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 continued to deal with the COVID-19 pandemic throughout the course of FY21. Fare collection enforcement was suspended through August 2020 and resumed September 1, 2020. Ridership remained depressed, which was also reflected in the reduced fare revenue collected. CATA did not operate any summer services in FY21 (Rockport Shuttle, Stage Fort Park Shuttle, Ipswich/Essex Explorer).

CATA started providing dial-a-ride services to the Town of Hamilton on July 1, 2020. Service is provided within the town as well as out of town to Wenham, Beverly, Manchester, Gloucester, Rockport, Essex, Ipswich, Rowley, Salem, Peabody, and Danvers. The service is fully funded through Hamilton's local assessment.

CATA launched a new service, CATA On Demand, in April 2021. The pilot program is funded through a MassDOT Workforce Transportation grant and local matching funds from partner organizations. CATA partnered with the City of Gloucester Economic Development and Industrial Corporation (EDIC) on the pilot project. The pilot is designed to provide service to/from the Gloucester and West Gloucester MBTA Commuter Rail Stations and the local industrial parks and major employers in Gloucester. The service is similar to Uber/Lyft, with a customized CATA mobile app and customized CATA vans. Service operates Monday through Friday within a designated area in Gloucester. Ridership on the service increased month over month in FY21.

CATA continued to provide shuttle services for the MBTA during the Gloucester Drawbridge construction project.

CATA provided approximately 160,800 trips in FY21, which includes fixed route, demand response (senior, ADA, dialysis), CATA On Demand, Beverly Shuttle, and the MBTA work. In terms of ridership recovery, this is about 70% of total trips provided in FY19.

The Executive Office of Health and Human Services (EOHHS) has contracted with CATA for many years for brokerage services in the northeast region of the Commonwealth. In the most recent RFP (11/2019) for Brokerage Services, the existing nine regions were consolidated into three regions for the entire Commonwealth. CATA's existing region of 19 communities was consolidated into the greater Boston region of 132 communities, essentially eliminating CATA and the other smaller RTAs from competing in the RFP process. EOHHS awarded the new brokerage contract to two larger Regional Transit Authorities. Despite CATA's best efforts to continue brokerage work with the state or as a subcontractor to another RTA, CATA's brokerage division closed June 30, 2021. This resulted in six employees being laid off. The loss of the brokerage contract will also cause a significant decrease in total revenues and expenses as well as a shift in overhead expenses from the Brokerage division to the Administration. CATA anticipates a reduction from an operating budget of between \$15-20 million to \$3.5 million.

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Statement of Net Position

June 30, 2021

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 536,962
Federal operating assistance receivable	192,133
Receivables from cities and towns	589,602
Brokerage accounts receivable	1,174,200
Other receivables	526,137
Contractor advances	235,082
Prepaid expenses	19,400
Total current assets	3,273,516

Restricted and noncurrent assets:

Cash and cash equivalents (Note 3)	1,894,551
Capital assistance receivables	28,750
Total restricted assets	1,923,301
Receivables (Note 10)	495,136
Capital assets, net (Note 5)	5,737,507
Total restricted and noncurrent assets	8,155,944
Total Assets	\$ 11,429,460

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 1,131,603
Accrued payroll	38,625
Accrued interest payable	38,293
Total current liabilities	1,208,521

Restricted and noncurrent liabilities:

Compensated absences	28,881
Unearned revenue (Note 12)	1,894,551
Revenue anticipation notes (Note 6)	2,560,000
Total restricted and noncurrent liabilities	4,483,432
Total Liabilities	\$ 5,691,953

Net Position

Net Position

Invested in capital assets	\$ 5,737,507
Unrestricted	-
Total Net Position	\$ 5,737,507

See accompanying notes to the financial statements

CAPE ANN TRANSPORTATION AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2021

Operating Revenues:	
Passenger fares	\$ 66,825
Brokerage revenues	10,653,101
Other transit services	2,822,586
Other Income	100,451
Total operating revenues	13,642,963
Operating Expenses:	
Transit service	13,578,373
Maintenance	432,971
General Administration	124,870
Total operating expenses excluding depreciation	14,136,214
Depreciation	784,336
Total operating expenses including depreciation	14,920,550
Operating loss	(1,277,587)
Nonoperating revenues (expense)	
Operating assistance grants	
Federal	144,821
Commonwealth of Massachusetts	1,465,569
Local Assessments	775,531
Interest income	10,641
Interest expense	(26,543)
Total nonoperating revenues	2,370,019
Loss before reserves and capital grants	1,092,432
Extraordinary expense, stabilization and Section 10 reserves	(1,876,768)
Change in net position	(784,336)
Net position	
Beginning of the year, as reported	6,539,626
Prior period adjustment (Note 18)	(17,783)
Beginning of the year, as restated	6,521,843
Net position, end of year	\$ 5,737,507

See accompanying notes to the financial statements

CAPE ANN TRANSPORTATION AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Passenger fares	\$ 66,825
Brokerage service revenues	10,204,821
Other transit services	2,437,844
Other cash receipts	100,451
Payments to operators	(12,474,486)
Payments to other vendors	(150,624)
Payments to employees for services	(525,230)
Net cash used in operating activities	<u>(340,399)</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of revenue anticipation notes	2,560,000
Principal paid on revenue anticipation notes	(2,300,000)
Interest paid on revenue anticipation notes	(34,122)
Operating and contract assistance	2,029,926
Net cash provided by noncapital financing activities	<u>2,255,804</u>
Cash flows from investing activities	
Transfer funds to short-term investments	(1,894,551)
Interest income	10,641
Net cash used by investing activities	<u>(1,883,910)</u>
Change in cash and cash equivalents	31,495
Cash and cash equivalents, beginning of year	<u>505,467</u>
Cash and cash equivalents, end of year	<u><u>\$ 536,962</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,277,587)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	784,336
Changes in assets and liabilities	
Receivables, net	(936,535)
Other assets	408,241
Accounts payable and accrued expenses	681,146
Net cash used in operating activities	<u><u>\$ (340,399)</u></u>
Supplemental Disclosures of Noncash Transactions	
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$ 135,952

See accompanying notes to the financial statements

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2021

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, 2021

D. Accounts Receivable

Accounts receivable are due from various state agencies for services provided to designated individuals. At June 30, 2021 all accounts were deemed collectable.

E. Compensated Absences

Employees of the Authority are entitled to paid vacations, paid sick days and personal days off, depending on job classification, length of service and other factors. The Authority's policy is to recognize the costs of compensated absences when actually accrued, subject to accumulation limitations in accordance with personnel policies. The vested accrual balance at June 30, 2021 was \$28,881.

F. Capital Assets

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

G. Depreciation

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

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

H. Estimates

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

I. Concentration of Credit Risk

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

J. Available Unrestricted Resources

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

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2021

K. Unearned Revenue

Unearned revenue arises when assets are recorded before eligibility requirements have been met.

L. 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.

M. 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.

N. 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.

During fiscal 2021, the following GASB Pronouncements were adopted and implemented, when necessary, by the Authority. The adoption of these statements did not have a material impact on the Authority's financial statements.

- No. 84 – *Fiduciary Activity*
- No. 90 – *Major Equity Interests*

The GASB has issued the following statements which require adoption subsequent to June 30, 2021 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.

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Notes to Financial Statements

June 30, 2021

Statement No.	Adoption Required in Fiscal Year	
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of Construction Period</i>	2022
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2022
93	<i>Replacement of Interbank Offered Rates</i>	2022
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
97	<i>Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and 84, and a suppression of GASB No. 32</i>	2022

Note 3. Cash and Cash Investments

A. Investment Policy

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”).

B. Custodial Credit Risk

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, 2021 \$828,890 of the government’s bank balance of \$2,596,758 was exposed to custodial credit risk as uninsured and uncollateralized.

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Notes to Financial Statements

June 30, 2021

C. Interest Rate Risk

As of June 30, 2021, the Authority's primary short-term investment was in the State Treasurer's investment pool, MMDT. The fair value of the MMDT investment at June 30, 2021 was \$1,517,868 and its average maturity is less than one year.

D. Credit Risk

As of June 30, 2021, the Authority's investment in the state investment pool, MMDT, was not rated.

E. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Because MMDT is measured at net asset value, it is not required to be measured within the fair value hierarchy described above.

F. Liquidity

MMDT does not place any limitation or restrictions on participant withdrawals. MMDT has no redemption restrictions.

G. Restricted Cash

Restricted cash is segregated from operating cash due to being restricted for capital asset purchases.

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 2021 was \$1,465,569.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2021

Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2021:

	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	-	185,450	6,078,846
Transit equipment	4,815,776	-	-	4,815,776
Service equipment	218,411	-	-	218,411
Electronic equipment	459,905	-	2,510	457,395
Service vehicles	87,878	-	-	87,878
Furniture & fixtures	763,263	-	620,833	142,430
Total other capital assets at historical cost	<u>12,609,529</u>	<u>-</u>	<u>808,793</u>	<u>11,800,736</u>
Less accumulated depreciation for:				
Buildings and improvements	2,848,415	171,868	86,544	2,933,739
Transit equipment	2,692,212	446,509	-	3,138,721
Service equipment	194,527	7,862	-	202,389
Electronic equipment	387,621	35,395	2,510	420,506
Service vehicles	66,284	15,706	-	81,990
Furniture & fixtures	748,627	8,090	620,833	135,884
Total accumulated depreciation	<u>6,937,686</u>	<u>685,430</u>	<u>709,887</u>	<u>6,913,229</u>
Other capital assets, net	<u>5,671,843</u>	<u>(685,430)</u>	<u>98,906</u>	<u>4,887,507</u>
Total capital assets, net	<u>\$ 6,521,843</u>	<u>(685,430)</u>	<u>98,906</u>	<u>5,737,507</u>

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

Notes to Financial Statements

June 30, 2021

Note 6. Revenue Anticipation Notes

At June 30, 2021, the Authority had \$2,300,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 1.0397% and are due July 1, 2021.

	Outstanding at June 30 2020	Issued	Retired	Outstanding at June 30 2021
1.6985% revenue anticipation note	\$ 2,300,000	-	2,300,000	-
1.0397% revenue anticipation note	-	2,560,000	-	2,560,000
Total	\$ 2,300,000	2,560,000	2,300,000	2,560,000

Subsequent to the year end, the Authority retired \$2,560,000 of the notes outstanding at year end. The retirement was financed by the borrowing of \$2,210,000 of revenue anticipation notes; they have a weighted average interest cost of 0.3696% and are due July 1, 2022. 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 \$41,478 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, 2021

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, 2021.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2021, expenditures for the Authority's share of health insurance contributions were \$75,903. The Authority purchases insurance for worker's compensation for its employees.

Note 10. Commitments and Contingent Liabilities

A. Fuel Contracts

The Authority has the following contracts outstanding:

<u>Product</u>	<u>Term</u>	<u>Gallons</u>	<u>Price</u>
Unleaded Gasoline	7/1/21 - 6/30/22	35,000	\$ 2.1124
Ultra Low Sulfur Diesel	7/1/21 - 6/30/22	45,000	\$ 2.0496
Low Sulfur Heating Oil	7/1/21 - 6/30/22	20,000	\$ 2.1496

B. Receivables

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 \$260,970 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. The contract was not renewed for the subsequent year. The end date was extended to December 31, 2021.

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Notes to Financial Statements

June 30, 2021

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.

In July of 2019 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 was the determination of the General Manager's status as either an employee of CATA or an independent contractor. Subsequent to the year end a settlement was reached. The agreed-upon amount was recorded on the fiscal 2021 books of the Authority. The amount of the settlement did not have a material 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	\$ 12,631,736
Less: Accumulated Depreciation	6,894,229
Less: Outstanding Debt Related to Capital Assets	-
Investments in Capital Assets	<u>\$ 5,737,507</u>

Note 12. Unearned Revenue: Extraordinary Reserve, Stabilization Fund, Section 10 Reserve

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses that are both unusual in nature and infrequent in occurrence. The total reserve amount may not exceed 20% of the prior year's local assessment and the annual funding cannot exceed 3% of the current year's local assessment. The accumulated aggregate reserve of \$35,500 (which represents approximately 4.58% of the applicable local assessment of \$775,531) is included in unearned revenue in the accompanying statement of net position.

Chapter 161B of the General Laws of the Commonwealth has been amended to allow the Authority to establish a stabilization fund, which can be accessed for capital improvements or to offset an unforeseen and dramatic loss of revenue within a fiscal year. The Authority maintains a stabilization fund in the amount of \$1,447,852 which is included in unearned revenue in the accompanying statement of net position.

Section 10 of Chapter 161B of the General Laws of the Commonwealth of Massachusetts allows the Authority to establish a reserve fund with the approval of the advisory board to set aside excess funds earned by the Authority. The amount placed in the reserve is in excess of the state contract assistance for fiscal 2021 which was allocated to the Section 6 reserve and the stabilization fund permitted by Section 26. The excess amount for fiscal 2021 was \$411,199.

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Notes to Financial Statements

June 30, 2021

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 had 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 engaged private taxi and van companies for these services. All agreements were subject to the appropriation and allocation of the funding necessary to discharge the payment obligations of the Commonwealth accruing that fiscal year. These contracts were terminated effective June 30, 2021.

Note 15. MBTA Commuter Rail Service

CATA is providing bus service between several MBTA Commuter Rail Stations, including Rockport, Gloucester, West Gloucester, and Manchester, during the Gloucester Drawbridge Construction Project. CATA provides service based on a schedule provided by the MBTA. CATA is using several MBTA buses to augment the regular CATA fleet for this special project. CATA started providing this service in April of 2020 and service is currently ongoing.

Note 16. Related Parties

A. City of Gloucester

The Authority has entered in an agreement with the City of Gloucester to lease 10,652 square feet of office space. The initial term 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, 2021 was \$92,250. 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.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2021

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 \$1,465,569; State Capital Assistance of \$28,750; and Local Assessments of \$775,531 to be paid to the Authority by the. Related party receivables consist of \$1,084,738 in local operating assistance to be billed to the Communities constituting the Authority, \$28,750 of State Capital Assistance, and \$47,312 in pass-through funds.

Note 17. Executive Compensation

Administration and Finance regulations, 801 CMR 53.00, on Executive Compensation require that the Authority disclose in the annual financial statements the “salaries and other compensation of its executive director, officers, board members and other highly compensated employees”. Compensation is defined in the regulation, 801 CMR 53.04 (1) to include “base salary, bonuses, severance, retirement or deferred compensation packages and policies relative to the accrual and payment of sick and vacation time, including payouts for unused sick and vacation time”. The administrator is the only individual for whom disclosure is required. Based on the above definition of compensation the administrator received \$127,701 during the fiscal year.

Note 18. Prior Period Adjustment

In prior years the Authority reported the Reserve for Extraordinary Expenses allowed by Section 6 of Chapter 161B as a segregated portion of Net Position. The Commonwealth of Massachusetts requires this type of reserve to be reported as a liability under the account name unearned revenue. This adjustment had no effect on the current year’s financial results.

Note 19. COVID-19

During fiscal 2020 the Coronavirus epidemic significantly affected the Authority’s operations. Most brokerage and demand responsive services were discontinued, fare revenues were not collected and ridership decreased significantly. CATA was required to incur expenses for personal protection equipment, barriers and disinfectant related products and cleaning services. In response to the effects of COVID-19, the Coronavirus Aid Relief, and Economic Security Act (CARES Act) was signed into law. The purpose of that law was to help the Authority fully fund their revenue losses and cover the additional expenses require to protect employees and riders. The funding requires no local match.

In December of 2020 the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) was enacted to provide additional assistance. Funding is intended to support eligible expenses with priority given to payroll and operational needs. The grant awarded is for \$310,952.

In March of 2021 the American Rescue Plan Relief Act of 2021 (ARP) was enacted to provide ongoing assistance to ensure the ability of the Authority to provide services well into the future. The grant will assist with operating expenses related to maintaining day-to-day operations, cleaning and sanitization, combating the spread of pathogens on transit systems and maintaining critical staffing levels. The award to CATA was in the amount of \$1,448,954.

CAPE ANN TRANSPORTATION AUTHORITY
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Notes to Financial Statements

June 30, 2021

The following table represents drawdowns made to June 30, 2021.

	<u>Grant Amount</u>	<u>Current Expenditures</u>	<u>Prior Expenditures</u>	<u>Remaining Balance</u>
CARES Act	\$ 1,587,875	144,821	18,238	1,424,816
CRRSAA	310,952	-	-	310,952
ARP	1,448,954	-	-	1,448,954
	<u>\$ 3,347,781</u>	<u>144,821</u>	<u>18,238</u>	<u>3,184,722</u>

Note 20. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2021 through October 1, 2021, 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 a settlement was reached in the lawsuit referenced in Note 10, item D. The resolution of this matter did not have a material effect on the Authority's financial position.

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, 2021

OPERATING COSTS

CATA administrative costs	\$ 124,870
Purchased services	
Fixed route	2,752,215
Demand responsive	840,499
Brokerage service	10,418,630
Debt service - interest	26,543
Total operating costs	14,162,757

FEDERAL OPERATING ASSISTANCE

FTA operating and administrative	144,821
Other federal	-
Total federal assistance	144,821

REVENUES

Operating	
Farebox revenue	66,825
Brokerage service reimbursement	10,653,101
Other transit services	2,822,586
Other Revenue	
Rental income	92,250
Interest income	10,641
Miscellaneous	8,201
Total revenue	13,653,604

NET OPERATING DEFICIT

364,332

ADJUSTMENTS

Extraordinary expenses	17,717
Stabilization fund	1,447,852
Section 10 reserve	411,199
Total adjustments	1,876,768

NET COST OF SERVICE

2,241,100

NET COST OF SERVICE FUNDING

Local assessments	775,531
State contract assistance to be funded	1,465,569
Less: state contract assistance received	1,465,569
Balance requested from the State	-

UNREIMBURSED DEFICIT

-

See accompanying independent auditors' report

CAPE ANN TRANSPORTATION AUTHORITY
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Schedule of Local Assessments

For the Year Ended June 30, 2021

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2020 as well as the audited amount for fiscal 2021.

	Fiscal 2020 Assessment	Fiscal 2021 Audited
Essex	\$ 2,740	25,263
Gloucester	388,248	397,954
* Hamilton	-	147,682
Ipswich	99,192	101,672
Rockport	<u>100,390</u>	<u>102,960</u>
 Totals	 <u>\$ 590,570</u>	 <u>775,531</u>

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

ROLAND P. LAMBALOT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 1, 2021.

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 financial statement. 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
October 1, 2021

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

Summary Schedule of Prior Year Audits

June 30, 2021

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