

Cape Ann Transportation Authority

**Independent Auditors' Report and
Management's Financial Statements**

June 30, 2022

Ron L. Beaulieu & Company

CERTIFIED PUBLIC ACCOUNTANTS

CAPE ANN TRANSPORTATION AUTHORITY

JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Advisory Board of
Cape Ann Transportation Authority
Gloucester, MA

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Cape Ann Transportation Authority, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Ann Transportation Authority, as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cape Ann Transportation Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cape Ann Transportation Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cape Ann Transportation Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cape Ann Transportation Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cape Ann Transportation Authority's basic financial statements. The accompanying Schedule of Net Cost of Service and Schedule of Local Assessments are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or 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 accompanying Schedule of Net Cost of Service and Schedule of Local Assessments are fairly stated, in all material respects, in relation to the basic 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 June 30, 2022 on our consideration of Cape Ann Transportation 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 solely 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 the effectiveness of Cape Ann Transportation Authority's 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 Cape Ann Transportation Authority's internal control over financial reporting and compliance.

Ron L. Beaulieu & Co.

Portland, Maine

May 22, 2023

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, 2022. Please read this discussion and analysis in conjunction with the Authority's financial statements.

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 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.

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

Required Supplementary Information

Management's Discussion and Analysis - Unaudited

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Current assets	\$ 3,802,521	\$ 3,273,516
Restricted and noncurrent assets	549,942	2,418,437
Capital assets, net	<u>5,589,691</u>	<u>5,737,507</u>
Total assets	<u>9,942,154</u>	<u>11,429,460</u>
Current liabilities	218,811	1,208,521
Restricted and noncurrent liabilities	<u>2,239,101</u>	<u>4,483,432</u>
Total liabilities	<u>2,457,912</u>	<u>5,691,953</u>
Net position:		
Invested in capital assets, net of related debt	5,589,691	5,737,507
Restricted	1,894,551	-
Unrestricted	<u>-</u>	<u>-</u>
Total net position	<u>\$ 7,484,242</u>	<u>\$ 5,737,507</u>
Operating revenue		
Revenue from transportation	\$ 2,492,930	\$ 13,542,512
Other	<u>111,288</u>	<u>100,451</u>
Total operating revenues	<u>2,604,218</u>	<u>13,642,963</u>
Operating expenses:		
Transportation services	4,348,585	14,011,344
Other operating expenses	<u>590,680</u>	<u>124,870</u>
Total operating expenses, excluding depreciation	4,939,265	14,136,214
Depreciation and amortization	<u>735,420</u>	<u>784,336</u>
Total operating expenses, including depreciation	<u>5,674,685</u>	<u>14,920,550</u>
Operating loss	<u>(3,070,467)</u>	<u>(1,277,587)</u>
Net nonoperating revenue	2,335,047	2,370,019
Capital grants	150,678	-
Additions to reserves	<u>-</u>	<u>(1,876,768)</u>
Change in net position	<u>(584,742)</u>	<u>(784,336)</u>
Beginning of year net position	5,737,507	6,539,626
Prior period adjustment (Note 18)	<u>2,331,477</u>	<u>(17,783)</u>
End of year net position	<u>\$ 7,484,242</u>	<u>\$ 5,737,507</u>

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

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 \$7,484,242. The Authorities total net assets increased by \$1,746,735 mainly due to the reclassification of liabilities. The Authority's expenses, except for depreciation and amortization, are fully funded annually through a combination of federal, state, and local assistance.

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

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

- Passenger fares increased \$81,578, or 122.15%, due to the increase in ridership from the easing of COVID restrictions.
- Total operating expenses, excluding depreciation, decreased by \$9,196,949, due to the cessation of brokerage services.
- 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, 2022 amounted to \$5,589,691 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, transportation equipment, office, and other equipment.

Capital asset additions and adjustments during the fiscal year include the following:

Service equipment	\$ 125,738
Furniture & Fixtures	<u>24,940</u>
	<u><u>\$ 150,678</u></u>

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

At year-end, the Authority had \$2,210,000 of notes outstanding, a decrease of \$350,000 over the prior year.

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

Required Supplementary Information

Management's Discussion and Analysis – Unaudited

Economic Factors and Next Year's Budgets

The Cape Ann Transportation Authority continued to provide services throughout the course of the COVID-19 pandemic in FY22. CATA provided approximately 218,732 trips in FY22, which includes fixed route, ADA and senior dial-a-ride, CATA On Demand, all three summer services (Stage Fort Park Trolley, Rockport Trolley, and Ipswich/Essex Explorer), the Beverly Shuttle, and the MBTA Shuttle service.

CATA continued to provide shuttle services for the MBTA during the Gloucester Drawbridge construction project which ended May 8, 2022.

CATA also started a small pilot for workforce commuter transportation in conjunction with a regional Cape Ann Works initiative. In terms of ridership recovery, FY22 ridership (218,732) is about 95% of FY19 ridership (231,768), the last full pre-COVID year. This service ended October 21, 2022.

Since the launch of the CATA On Demand service in April 2021, it continues to be popular in with the highest ridership yet since launch as depicted in the stats below. The service operates Monday through Friday within a designated area in Gloucester.

	FY 2021	FY 2022
July		1,573
August		1,765
September		1,591
October		1,336
November		1,258
December		1,591
January		1,271
February		1,424
March		1,886
April	81	1,539
May	675	1,474
June	1,241	1,625
Yearly	1,997	18,333

In accordance with MGL 161(b), CATA contracts with a private company for the management and operation of the transit services. The management contract was awarded to First Transit, Inc., effective January 1, 2022. The management contract is a three-year contract with two one-year options that can be exercised at the Authority sole discretion.

During FY22, CATA conducted several small capital projects, including upgrading the interior lighting to LED, replacing the carpet throughout the first floor offices, replacing the vehicle lifts and jack stands in the maintenance department.

CAPE ANN TRANSPORTATION AUTHORITY
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Required Supplementary Information

Management's Discussion and Analysis – Unaudited

CATA also ordered two 35' heavy duty diesel hybrid Gillig buses to be delivered by end of FY23. Additionally, CATA ordered two 35' diesel buses with the trolley package to replace the two trolley's we currently have as they have reached the end of their useful life. They too, will be delivered by the of FY23.

CATA plans to launch a Mobile Ticketing/Bus Plus App (Funded by MassDOT), by the Fall. The App will not only enable customers to purchase and use the tickets, but will also be able to view schedules and manage their accounts and get updated alert and special offer notifications. It will also increase ridership due to its conveniency of not having to carry cash.

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

Statement of Net Position

June 30, 2022

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 912,007
Short term investments (Note 3)	1,894,551
Federal operating assistance receivable	38,990
Receivables from cities and towns	740,113
Capital assistance receivables	91,556
Other receivables	50,210
Inventories	71,819
Prepaid expenses	3,275
Total current assets	3,802,521

Restricted and noncurrent assets:

Receivables (Note 10)	549,942
Capital assets, net (Note 5)	5,589,691
Total restricted and noncurrent assets	6,139,633
Total Assets	\$ 9,942,154

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 176,262
Accrued expenses	10,000
Accrued payroll	4,924
Accrued interest payable	27,625
Total current liabilities	218,811

Restricted and noncurrent liabilities:

Compensated absences	29,101
Revenue anticipation notes (Note 6)	2,210,000
Total restricted and noncurrent liabilities	2,239,101
Total Liabilities	\$ 2,457,912

Net Position

Net Position

Invested in capital assets, net	\$ 5,589,691
Unrestricted	-
Restricted	1,894,551
Total Net Position	\$ 7,484,242

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, 2022

Operating Revenues:	
Passenger fares	\$ 148,395
Other transit services	2,344,535
Other Income	111,288
Total operating revenues	<u>2,604,218</u>
Operating Expenses:	
Transit service	3,907,865
Maintenance	440,720
General Administration	590,680
Total operating expenses excluding depreciation	<u>4,939,265</u>
Depreciation	735,420
Total operating expenses including depreciation	<u>5,674,685</u>
Operating loss	<u>(3,070,467)</u>
Nonoperating revenues (expense)	
Operating assistance grants	
Federal	38,990
Commonwealth of Massachusetts	1,502,964
Local Assessments	794,919
Interest income	6,343
Interest expense	(8,169)
Total nonoperating revenues	<u>2,335,047</u>
Loss before reserves and capital grants	(735,420)
Capital grants	150,678
Change in net position	(584,742)
Net position	
Beginning of year, as reported	5,737,507
Prior period adjustment	2,331,477
Beginning of year, as restated	<u>8,068,984</u>
Net position, end of year	<u><u>\$ 7,484,242</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, 2022

Cash flows from operating activities:	
Passenger fares	\$ 148,395
Brokerage service revenues	1,174,200
Other transit services	2,975,200
Other cash receipts	111,288
Payments to operators	(5,332,082)
Payments to other vendors	(354,829)
Payments to employees for services	(269,332)
Net cash used in operating activities	<u>(1,547,160)</u>
Cash flows from noncapital financing activities:	
Proceeds from sale of revenue anticipation notes	2,210,000
Principal paid on revenue anticipation notes	(2,560,000)
Interest paid on revenue anticipation notes	(18,837)
Operating and contract assistance	2,284,699
Net cash provided by noncapital financing activities	<u>1,915,862</u>
Cash flows from investing activities	
Interest income	<u>6,343</u>
Net cash used by investing activities	<u>6,343</u>
Change in cash and cash equivalents	375,045
Cash and cash equivalents, beginning of year	<u>536,962</u>
Cash and cash equivalents, end of year	<u><u>\$ 912,007</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,070,467)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	735,420
Changes in assets and liabilities	
Receivables, net	1,733,228
Accounts payable and accrued expenses	(945,341)
Net cash used in operating activities	<u><u>\$ (1,547,160)</u></u>

See accompanying notes to the financial statements

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

Notes to Financial Statements

June 30, 2022

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, 2022

D. Accounts Receivable

Accounts receivable are due from various state agencies for services provided to designated individuals. At June 30, 2022 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, 2022 was \$29,101.

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, 2022

K. Inventories

Inventories are recorded at cost.

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

During fiscal 2022, 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. 87 – *Leases*
- No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*
- No. 92 – *Omnibus 2020*
- No. 93 – *Replacement of interbank offered rates*
- No. 97 – *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 No. 84, and a suspension of GASB Statement No. 32*

The GASB has issued the following statements which require adoption subsequent to June 30, 2022 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.

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

Notes to Financial Statements

June 30, 2022

Statement No.		Adoption Required in Fiscal Year
91	<i>Conduit Debt Obligations</i>	2023
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
99	<i>Omnibus 2022</i>	2023/2024
100	<i>Accounting Changes and Error Corrections</i>	2024
101	<i>Compensated Absences</i>	2025

Note 3. Cash and Short-term 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, 2022 \$733,457 of the government’s bank balance of \$983,457 was exposed to custodial credit risk as uninsured and uncollateralized.

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

Notes to Financial Statements

June 30, 2022

C. Interest Rate Risk

As of June 30, 2022, 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, 2022 was \$1,898,475 and its average maturity is less than one year.

D. Credit Risk

As of June 30, 2022, 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.

Note 4. Grants

Under various sections of the Bipartisan Infrastructure Law, 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 2022 was \$1,502,964.

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June 30, 2022

Note 5. Capital Assets

The following is a summary of changes in Capital Assets at June 30, 2022:

	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	6,078,846	-	-	6,078,846
Transit equipment	4,815,776	-	-	4,815,776
MAP vehicles	1,072,411	-	-	1,072,411
Service equipment	218,411	125,738	54,000	290,149
Electronic equipment	438,395	-	-	438,395
Service vehicles	87,878	-	-	87,878
Furniture & fixtures	142,430	24,940	-	167,370
Total other capital assets at historical cost	<u>12,854,147</u>	<u>150,678</u>	<u>54,000</u>	<u>12,950,825</u>
Less accumulated depreciation for:				
Buildings and improvements	2,933,740	156,354	-	3,090,094
Transit equipment	3,138,721	370,365	-	3,509,086
MAP vehicles	635,485	150,709	-	786,194
Service equipment	202,389	14,330	54,000	162,719
Electronic equipment	401,506	30,333	-	431,839
Service vehicles	81,990	5,888	-	87,878
Furniture & fixtures	135,883	7,441	-	143,324
Total accumulated depreciation	<u>7,529,714</u>	<u>735,420</u>	<u>54,000</u>	<u>8,211,134</u>
Other capital assets, net	<u>5,324,433</u>	<u>(584,742)</u>	<u>-</u>	<u>4,739,691</u>
Total capital assets, net	<u>\$ 6,174,433</u>	<u>(584,742)</u>	<u>-</u>	<u>5,589,691</u>

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June 30, 2022

Note 6. Revenue Anticipation Notes

At June 30, 2022, the Authority had \$2,210,000 of revenue anticipation notes (RAN) outstanding. The RANs have a weighted average net interest cost (NIC) of 0.3696% and are due July 2, 2022.

	Outstanding at June 30 2021	Issued	Retired	Outstanding at June 30 2022
1.0397% revenue anticipation note	\$ 2,560,000	-	2,560,000	-
0.3696% revenue anticipation note	-	2,210,000	-	2,210,000
Total	\$ 2,560,000	2,210,000	2,560,000	2,210,000

Subsequent to the year end, the Authority retired \$2,210,000 of the notes outstanding at year end. The retirement was financed by the borrowing of \$2,413,000 of revenue anticipation notes; they have a weighted average interest cost of 2.978% and are due July 1, 2023. 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 made 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 \$19,564 during the fiscal year. The Authority discontinued contributing after Fiscal Year 22.

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June 30, 2022

Note 9. Pension Plan

The Advisory Board of CATA voted to accept the provisions of Chapter 32 for their employees. The Public Employee Retirement Administration Committee (PERAC) accepted that vote and issued a certificate effective July 1, 2022. As of that date CATA became a member unit of the Gloucester Retirement System. Upon the next System valuation date of January 1, 2024, CATA will be recognized as a member unit and their liabilities will be recognized and their contributions assessed. At that time CATA will be subject to all GASB 68 accounting and disclosure requirements.

Note 10. Risk Management

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The estimated liability for all self-insured losses incurred but not reported is not material at June 30, 2022.

Health insurance benefits for employees are provided through a health maintenance organization. The Authority's contributes 75% of the premium cost for employees. In 2022, expenditures for the Authority's share of health insurance contributions were \$33,837. The Authority purchases insurance for worker's compensation for its employees.

Note 11. Commitments and Contingent Liabilities

A. Fuel Contracts

The Authority has no contracts outstanding.

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 \$445,931 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.

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June 30, 2022

C. Commitments

The Authority entered into a five-year agreement for management and preventive maintenance services effective January 1, 2022. The agreement is for a three-year term ending December 31, 2024 with two additional one-year options exercisable at the Authority's sole discretion at an initial annual management fee of \$182,329.

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.

Note 12. Net Assets – Investments in Capital Assets

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

Cost of Capital Assets Acquired	\$ 13,800,825
Less: Accumulated Depreciation	8,211,134
Less: Outstanding Debt Related to Capital Assets	-
Investments in Capital Assets	<u>\$ 5,589,691</u>

Note 13. 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 4.47% of the applicable local assessment of \$794,919).

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.

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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Note 14. Transit Service

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

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, 2022 was \$92,820. 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 \$1,502,964; State Capital Assistance of \$91,556; and Local Assessments of \$794,919 to be paid to the Authority by the Commonwealth. Related party receivables consist of \$1,290,155 in local operating assistance to be billed to the Communities constituting the Authority, and \$91,556 of State Capital Assistance.

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 \$121,574 during the fiscal year.

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Notes to Financial Statements

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Note 17. 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.

The following table represents drawdowns made to June 30, 2022.

	Grant Amount	Current Expenditures	Prior Expenditures	Remaining Balance
CARES Act	\$ 1,587,875	38,990	163,059	1,385,826
CRRSAA	310,952	-	-	310,952
ARP	1,448,954	-	-	1,448,954
	\$ 3,347,781	38,990	163,059	3,145,732

Note 18. Prior Period Adjustments

In fiscal year ended June 30, 2021, management increased its net asset received for extraordinary expenses to \$35,500 and it reclassified the Reserve to Unearned Revenue. Additionally, management established a reserve for stabilization in the amount of \$1,447,852 and reclassified it to Unearned Revenue. Lastly, management established a section 10 reserve in the amount of \$411,199 and it reclassified that reserve to Unearned Revenue. In these current year June 30, 2022 financial statements, management is making a prior period adjustment of \$1,894,551 to report all of its reserves as net position and not as Unearned Revenue, as was the reporting methodology in fiscal year June 30, 2020 and prior.

Mobility Assistance vehicles provided directly to the local communities by the Commonwealth of Massachusetts were not previously recorded as assets of the Authority. The effect on the Statement of Net Position was an increase of \$436,926 in under depreciated value. The annual depreciation of these assets has no impact on the Authority's Net Cost of Service as depreciation is excluded from that computation.

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Notes to Financial Statements

June 30, 2022

Note 19. Subsequent Events

The Authority has evaluated subsequent events to June 30, 2022 through May 22, 2023, the date the financial statements were available for issuance, and determined that other than the RAN refinancing discussed in Note 6, there are no material items that would require recognition or disclosure in the Authority's financial statements.

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Schedule of Net Cost of Service

For the Year Ended June 30, 2022

<u>OPERATING COSTS (EXCLUDING DEPRECIATION)</u>	
CATA administrative costs	\$ 590,680
Purchased services	
Fixed route	3,432,441
Demand responsive	916,144
Debt service - interest	8,169
Total operating costs	4,947,434
<u>FEDERAL OPERATING ASSISTANCE</u>	
FTA operating and administrative	38,990
Other federal	-
Total federal assistance	38,990
<u>REVENUES</u>	
Operating	
Farebox revenue	148,395
Other transit services	2,344,535
Other Revenue	
Rental income	92,820
Interest income	6,343
Miscellaneous	18,468
Total revenue	2,610,561
<u>NET OPERATING DEFICIT</u>	2,297,883
<u>ADJUSTMENTS</u>	-
<u>NET COST OF SERVICE</u>	2,297,883
<u>NET COST OF SERVICE FUNDING</u>	
Local assessments	794,919
State contract assistance to be funded	1,502,964
Less: state contract assistance received	1,502,964
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, 2022

The following table shows the local share that has been assessed upon each member municipality by the Commonwealth for fiscal year 2021 as well as the audited amount for fiscal 2022.

	Fiscal 2021 Assessment	Fiscal 2022 Audited
Essex	\$ 25,263	25,895
Gloucester	397,954	407,903
Hamilton	147,682	151,374
Ipswich	101,672	104,214
Rockport	<u>102,960</u>	<u>105,533</u>
Totals	<u>\$ 775,531</u>	<u>794,919</u>