

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a component Unit of the Massachusetts Department of Transportation)

Basic Financial Statements, Supplementary Data  
For the Year Ended June 30, 2014

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

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CAPE COD REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2014

The management of the Cape Cod Regional Transit Authority (the Authority) has generated this narrative overview and analysis to assist our readers in understanding the Authority's basic financial statements.

**Financial Highlights**

- \* The assets of the Authority exceeded its liabilities at June 30, 2014 by \$24,858,000.
- \* The Authority's total net position decreased by \$865,000.
- \* The total operating revenue increased from \$8,202,000 in fiscal year 2013 to \$8,973,000 in fiscal year 2014.
- \* The operating expenses increased from \$21,456,000 in fiscal year 2013 to \$24,099,000 in fiscal year 2014.
- \* The Authority's net expenditures for capital assets were \$2,305,000.
- \* Explanations of the above changes are delineated later in this narrative.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the following: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and the Notes to the Financial Statements.

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

The statement of revenues, expenses and changes in net position presents information showing how the assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables or unpaid accounts payable).

The statement of cash flows indicates the sources of the Authority's cash inflows and the uses of its cash outflows.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

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**Financial Position Analysis**

The following is a condensed statement of net position. It also indicates percentage changes in the Authority's assets, liabilities and net position.

Statement of Net Position  
(000 omitted)

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Current assets	\$ 11,765	\$ 10,753	9%
Capital assets	27,090	27,992	-3%
Other noncurrent assets	<u>1,187</u>	<u>2,509</u>	<u>-53%</u>
Total assets	<u>40,042</u>	<u>41,254</u>	<u>-3%</u>
Noncurrent liabilities	10,594	13,555	-22%
Current liabilities	<u>4,590</u>	<u>1,976</u>	<u>132%</u>
Total liabilities	<u>15,184</u>	<u>15,531</u>	<u>-2%</u>
Net position			
Invested in capital assets	27,090	27,992	-3%
Restricted	432	87	397%
Unrestricted	<u>(2,664)</u>	<u>(2,356)</u>	<u>13%</u>
Total net position	<u>\$ 24,858</u>	<u>\$ 25,723</u>	<u>-3%</u>

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$24,858,000 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net position reflects its investment in capital assets of \$27,090,000. (Namely, Land, Construction in progress, Buildings, Buses and vans, and Equipment). The Authority uses these capital assets to provide transportation services to the general public; consequently, these assets are not available for future spending.

An additional portion of the Authority's net position represents resources that are subject to external restrictions on how they may be used. The \$432,000 of restricted net position reflects the amounts restricted for the acquisition of capital assets, less related liabilities.

At the end of the current fiscal year, the Authority is able to report positive balances in two of the three categories of net position.

The Authority's net position decreased by \$865,000 (3%) during the current fiscal year. The decrease was caused by the net effect of nonoperating revenues of \$11,878,000, plus capital contributions of \$2,383,000 less an operating loss of \$15,126,000.

The Authority's total debt decreased by \$347,000 (2%) during the current year. This decrease was caused, by the net effect of an increase in accounts payable to general vendors and accrued expenses of \$259,000, an increase in revenue anticipation notes of \$600,000, a decrease in accounts payable to capital asset contractors of \$1,078,000 and the use of the reserve for extraordinary expense of \$128,000.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
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**Operations Analysis**

The following is the Authority's statement of revenues, expenses and changes in net position. It also indicates percentage changes in the various accounts.

Statement of Revenues, Expenses and Changes in Net Position  
(000 omitted)

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Operating revenues			
Transportation services	\$ 8,973	\$ 8,202	9%
Operating expenses			
Cost of service, maintenance administration	20,902	18,461	13%
Depreciation	3,197	2,995	7%
	<u>24,099</u>	<u>21,456</u>	<u>12%</u>
Operating loss	<u>(15,126)</u>	<u>(13,254)</u>	<u>14%</u>
Nonoperating revenues and (expenses)			
Operating assistance	11,629	10,116	15%
Other income	249	117	113%
	<u>11,878</u>	<u>10,233</u>	<u>16%</u>
Loss before capital contribution	<u>(3,248)</u>	<u>(3,021)</u>	<u>8%</u>
Capital contributions			
Federal	1,384	3,207	-57%
Commonwealth of Massachusetts	957	241	297%
Other	42	15	100%
	<u>2,383</u>	<u>3,463</u>	<u>-31%</u>
Increase (decrease) in net position	<u>(865)</u>	<u>442</u>	<u>-296%</u>
Net position			
Beginning of year	25,723	25,281	2%
End of year	<u>\$ 24,858</u>	<u>\$ 25,723</u>	<u>-3%</u>

The Authority's operating loss increased by \$1,872,000 (14%) from the prior year.

Operating revenues increased \$771,000 (9%) from the prior year. This was caused by increases in human service agency revenue of \$732,000 and DART and fixed route revenue of \$39,000.

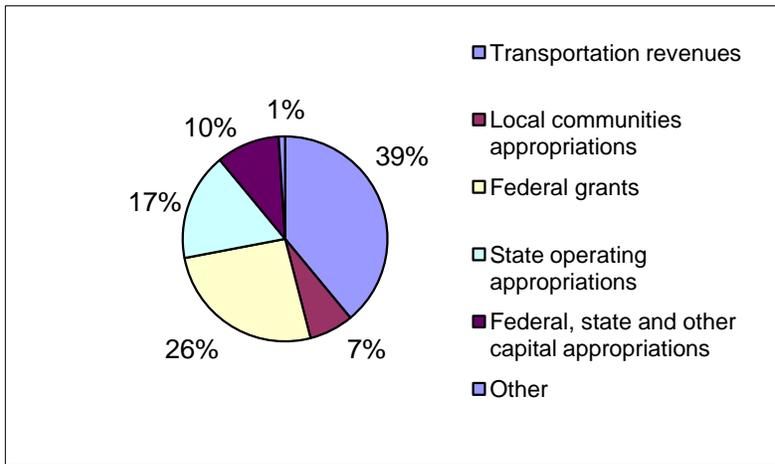
Operating expenses, inclusive of depreciation, increased \$2,643,000, an 12% increase. This was caused by increases in cost of service, maintenance and administration of \$2,441,000 and an increase in depreciation of \$202,000.

The "increase (decrease) in net position" decreased by \$1,307,000 (296%).

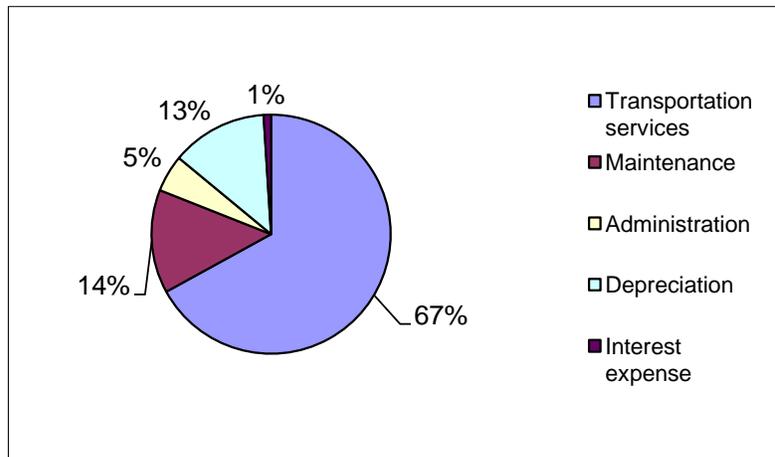
CAPE COD REGIONAL TRANSIT AUTHORITY  
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The revenues and expenses by source are delineated in the following graphs:

Revenues by source:



Expenses by source:



**Financial Ratios**

"Working Capital" is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to current liabilities, is an indicator of the ability to pay current obligations.

	<u>2014</u>	<u>2013</u>
Working Capital	\$ 7,175,000	\$ 8,777,000
Current ratio	3:1	5:1

The working capital and current ratio indicate that the Authority has an excellent ability to meet current obligations.

"Liabilities to Net Assets" indicates the extent of borrowing.

	<u>2014</u>	<u>2013</u>
Liabilities to net assets	61%	60%

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**Capital and Debt Administration**

Capital Assets

The Authority's investment in capital assets as of June 30, 2014 amounts to \$27,090,000, net of accumulated depreciation. The investment in capital assets includes Land, Contracts in progress, Buildings and structures, Vehicles, Equipment and Intangible assets. The total net decrease in capital assets for the current year was \$902,000 or a 3% decrease.

Major capital assets events during the current year included the following:

1. The acquisition of improvements to buildings and structures of \$141,000.
2. The additions to contracts in progress of \$337,000.
3. The acquisition of rolling stock (vehicles) of \$1,369,000.
4. The acquisition of equipment of \$82,000.
5. The acquisition of intangible assets of \$376,000.

Capital assets at year-end net of accumulated depreciation  
(000 omitted)

	<u>2014</u>	<u>2013</u>
Land	\$ 2,295	\$ 2,295
Contracts in progress	746	409
Buildings and structures	18,585	18,444
Vehicles	17,900	17,263
Equipment	2,678	2,694
Intangible assets	2,428	2,255
	44,632	43,360
Less accumulated depreciation	17,542	15,368
	\$ 27,090	\$ 27,992

Revenue Anticipation Notes

At the end of 2014 and 2013 the Authority had revenue anticipation notes of \$12,300,000 and \$11,700,000, respectively. These notes provide operating cash flow until funds are received from the State.

**Economic Factors**

Funding for the Authority's net cost of service (noncapital expenses less all noncapital revenues except state contract assistance and member municipality assessments) is dependent primarily (71%) on operating assistance from the Commonwealth of Massachusetts and 29% by assessments to member communities. In the past, operating assistance was funded a year in arrears by the State for years prior to fiscal year 2014. Presently, the Authority's operating assistance from MassDOT and the member communities is on a concurrent basis.

Demand for the Authority's services is mainly affected by the overall economy, seasonality, weather conditions, capacity restraints and operational limitations. Management feels, there are not any significant economic factors that would adversely effect fiscal year 2015 financial position or operating results.

**Contacting the Authority's Financial Management**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional information, contact Thomas Cahir, Administrator, Cape Cod Regional Transit Authority, 215 Iyannough Road, P.O. Box 1988, Hyannis, MA 02601.

# Bruce D. Norling, CPA, P.C.

## INDEPENDENT AUDITORS' REPORT

The Advisory Board  
Cape Cod Regional Transit Authority

We have audited the accompanying financial statements of the Cape Cod Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows for the years 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 i through v 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 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.

### *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 in the accompanying schedules on pages 17 through 20, is presented for purposes of additional analysis and is not a required part of the basic financial statements. These supplementary schedules have not been subjected to the auditing procedures

applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 7, 2014 on our consideration of the Authority's internal control over financial reporting and 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.

*Bruce D. Norling, CPA, P.C.*

October 7, 2014

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Net Position  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 3,877,625	\$ 658,865
Receivables	7,267,698	9,439,514
Other current assets	620,400	654,573
Total current assets	<u>11,765,723</u>	<u>10,752,952</u>
Restricted and noncurrent assets		
Restricted assets		
Receivables capital assistance	1,076,384	1,809,047
Receivables	110,736	699,905
Capital assets, net	<u>27,089,629</u>	<u>27,991,871</u>
Total restricted and noncurrent assets	<u>28,276,749</u>	<u>30,500,823</u>
Total assets	<u>40,042,472</u>	<u>41,253,775</u>
 <b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expense	2,235,318	1,975,931
Current portion of long-term debt	<u>2,354,838</u>	<u>1,975,931</u>
Total current liabilities	4,590,156	1,975,931
Restricted and noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable	644,040	1,721,989
Long-term debt net of current portion	9,950,000	11,704,642
Other	<u>128,257</u>	<u>128,257</u>
Total restricted and noncurrent liabilities	<u>10,594,040</u>	<u>13,554,888</u>
Total liabilities	<u>15,184,196</u>	<u>15,530,819</u>
 <b>NET POSITION</b>		
Invested in capital assets	27,089,629	27,991,871
Restricted	432,344	87,058
Unrestricted	<u>(2,663,697)</u>	<u>(2,355,973)</u>
Total net position	<u>24,858,276</u>	<u>\$ 25,722,956</u>

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Transportation services	\$ 8,972,987	\$ 8,202,207
Operating expenses		
Transportation service	16,230,975	14,258,785
Maintenance	3,355,187	2,940,862
General and administration	1,316,046	1,261,935
	20,902,208	18,461,582
Depreciation expense	3,196,284	2,994,997
	24,098,492	21,456,579
Operating loss	(15,125,505)	(13,254,372)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	6,172,380	5,045,043
Commonwealth of Massachusetts	3,865,423	3,518,841
Local	1,591,161	1,552,352
Interest expense	(63,651)	(90,181)
Other income	286,492	222,154
Gain (loss) on disposition of capital assets	25,816	(15,166)
	11,877,621	10,233,043
Loss before capital contributions	(3,247,884)	(3,021,329)
Capital contributions		
Federal	1,383,731	3,206,675
Commonwealth of Massachusetts	957,174	241,455
Other	42,299	15,037
	2,383,204	3,463,167
Increase (decrease) in net position	(864,680)	441,838
Total net position		
Beginning of year	25,722,956	25,281,118
End of year	\$ 24,858,276	\$ 25,722,956

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)

Statement of Cash Flows

Year Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Receipts from customers	\$ 9,482,563	\$ 8,037,370
Payments to vendors and suppliers	(19,297,364)	(17,455,324)
Payments to employees	(1,106,821)	(846,725)
Payments of fringe	<u>(183,150)</u>	<u>(185,933)</u>
Net cash used in operations	<u>(11,104,772)</u>	<u>(10,450,612)</u>
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	12,358,056	11,755,701
Repayment of revenue anticipation notes	(11,700,000)	(11,499,800)
Operating assistance grants	13,797,509	9,316,242
Interest expense	<u>(146,251)</u>	<u>(158,616)</u>
Net cash provided by noncapital financing activities	<u>14,309,314</u>	<u>9,413,527</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(2,865,479)	(2,382,999)
Capital contributions		
United States Department of Transportation	2,202,747	2,880,947
Commonwealth of Massachusetts	307,523	147,067
Other	42,299	15,037
Proceeds from sale of equipment	<u>36,666</u>	<u>          </u>
Net cash provided by (used in) capital and related financing activities	<u>(276,244)</u>	<u>660,052</u>
Cash flows from investing activities		
Interest income	3,231	2,330
Other	<u>287,231</u>	<u>222,154</u>
Net cash provided by investing activities	<u>290,462</u>	<u>224,484</u>
Net increase (decrease) in cash and cash equivalents	3,218,760	(152,549)
Cash and cash equivalents at beginning of year	<u>658,865</u>	<u>811,414</u>
Cash and cash equivalents at end of year	<u>\$ 3,877,625</u>	<u>\$ 658,865</u>
Reconciliation of operating loss to net cash used in operations		
Operating loss	\$ (15,125,505)	\$ (13,254,372)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,196,284	2,994,997
Changes in assets and liabilities:		
Receivables, net	509,576	(164,837)
Other assets	34,173	(123,296)
Accounts payable and accrued expense	<u>280,700</u>	<u>96,896</u>
Net cash used in operations	<u>\$ (11,104,772)</u>	<u>\$ (10,450,612)</u>
Non-cash capital related financing activities		
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$ 517,712	\$
At June 30, 2014, the Authority had capital expenditures that were financed via accounts payable	\$ 644,040	\$ 1,721,989

CAPE COD REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2014 and 2013

1. The Authority and Operators

The Cape Cod Regional Transit Authority (the Authority) is a component unit of the Massachusetts Department of Transportation (MassDOT) and MassDOT is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The Authority was established as a political subdivision of the Commonwealth on October 13, 1976, by the various towns constituting the Authority, pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth, for the purpose of continuing and improving local transit service.

The Authority is managed by an Administrator appointed by an Advisory Board. The Advisory Board is made up of appointed representatives from the member communities. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from the Federal government, the Commonwealth, and the member communities. In addition, the Authority receives federal and state capital grants that are used to finance acquisitions and improvements to facilities and equipment.

The operation and maintenance of the Authority is performed by private sector transportation companies (the Operators) under the terms and agreements whereby the carriers provide mass transit along such routes and according to such schedules as may be defined by the Authority. In return, the Authority agreed to reimburse the Operator for all costs and expenses which are reasonable and necessary for the efficient operation of the system.

The Authority also has a Human Service Brokerage program, whereby, the Authority coordinates with various human service agencies to provide their clients with transportation services. The actual services are provided by various private sector transportation companies.

2. Summary of Significant Accounting Policies

a) Measurement Focus, Basis of Accounting and Financial Reporting Presentation – The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose government, engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation services are provided. Unearned revenue represents cash received in advance of future services.

The Authority distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue is passenger fares. Operating expenses include the cost of transit services, provided by third party vendors, maintenance, administrative and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CAPE COD REGIONAL TRANSIT AUTHORITY  
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Notes to Financial Statements  
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

a) Measurement Focus, Basis of Accounting and Financial Reporting Presentation (continued)

The Authority has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which establishes guidance for applying standards established in Financial Accounting Standards Board (FASB) statements and interpretations to the preparation of financial statements for proprietary fund activities. In accordance with GASB Statement No. 62, the Authority complies with and observes all FASB statements and interpretations that were issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

b) Adoption of New Accounting Pronouncements – In March, 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this standard did not have a material impact on the Authority's financial statements.

In March, 2012, the GASB issued GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this standard did not have a material impact on the Authority's financial statements.

In May, 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement improves the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The adoption of this statement did not have a material impact on the Authority's financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2014 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority's fiscal practices and financial reports is being evaluated.

<u>Statement No.</u>		<u>Adoption Required in Fiscal Year</u>
68	<i>Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27</i>	2015
69	<i>Government Combinations and Disposals of Government Operations</i>	2015
71	<i>Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68</i>	2015

CAPE COD REGIONAL TRANSIT AUTHORITY  
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Notes to Financial Statements  
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

c) Capital Grants – The Authority receives capital grants from various governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation facilities and equipment. Capital grants are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

d) Statement of Cash Flows – For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

e) Restricted Assets and Restricted Liabilities – Restricted assets are restricted for the acquisition of capital assets. Restricted liabilities are amounts payable from the restricted assets.

f) Capital Assets – Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the assets. The Authority’s capitalization policy is to capitalize all assets acquired with capital funds regardless of the dollar amount. The estimated service lives are as follows:

	<u>Years</u>
Building and structures	7 – 40
Vehicles	5 – 12
Equipment	5 – 7
Intangible assets	5

g) Net Position - Net position is the residual of all other elements presented in a statement of net position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The categories of reporting net position are (1) amounts invested in capital assets – net of related debt, (2) amounts that are legally or statutorily restricted as to their use – net of related debt, and (3) amounts that are unrestricted.

The Authority’s restricted net position is all expendable.

h) Use of 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) Available Unrestricted Resources – The Authority’s policy is to utilize available unrestricted resources prior to restricted resources.

j) Reclassifications – Certain prior year amounts have been reclassified to conform to current year presentation.

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3. Cash and Cash Equivalents

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 its agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Custodial credit risk exists for cash deposits when, in the event of the failure of a depository financial institution, the Authority's deposits will not be recovered. The Authority does not have a formal policy with regard to custodial credit risk, but generally invests its funds in deposits that are fully FDIC insured or collateralized by irrevocable letters of credit established in favor of the Authority. At June 30, 2014, the Authority does not have any uninsured or uncollateralized bank deposits.

The total amounts of Authority deposits in financial institutions, per the bank statements, at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Balance per bank	\$ 4,036,979	\$ 823,836
Deposits covered by:		
Federal Depository Insurance Corporation	(250,000)	(250,000)
Collateralized with pledged securities	<u>(3,786,979)</u>	<u>(573,836)</u>
Total balance per banks	<u>\$ -</u>	<u>\$ -</u>

4. Grants

The Federal government provides both operating and capital funding pursuant to the various sections of the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), of 2005. Activities that previously received dedicated funding from SAFETEA-LU are being replaced by funding from new legislation; namely, the Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) Act, of 2012.

Further, the Commonwealth of Massachusetts (MassDOT) and the member communities provide the local share for both operating and capital funding.

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5. Receivables

The receivable for operating and capital assistance balance is disaggregated as follows:

	<u>2014</u>	<u>2013</u>
United States Department of Transportation -		
Pass-through grants through the Commonwealth		
Operating grants		
Rural area assistance	\$ -	\$ 46,018
Direct Federal Grants		
Operating grants	<u>4,632,437</u>	<u>3,034,184</u>
	<u>4,632,437</u>	<u>3,080,202</u>
Commonwealth of Massachusetts		
Operating grants		
State contract assistance	110,736	3,735,164
Local operating assistance to be billed by the		
Commonwealth to the Towns constituting the		
Authority and paid by the Commonwealth to		
the Authority	1,888,197	2,067,413
Executive Office of Human Services		
Transportation	703,728	1,223,709
Other	<u>43,336</u>	<u>32,931</u>
	<u>2,745,997</u>	<u>7,059,217</u>
Total Receivables	<u>\$ 7,378,434</u>	<u>\$10,139,419</u>
The total receivables is shown on the accompanying		
statement of net assets as follows:		
Current receivables	\$ 7,267,698	\$ 9,439,514
Noncurrent receivables	110,736	699,905
	<u>\$ 7,378,434</u>	<u>\$10,139,419</u>
Capital assistance		
Commonwealth of Massachusetts	\$ 325,080	\$ 238,634
Federal grants	751,304	1,570,413
Total Receivables capital grants	<u>\$ 1,076,384</u>	<u>\$ 1,809,047</u>

6. Other Current Assets

The other current asset balance includes inventory of motor vehicle parts and fuel for 2014 and 2013 of approximately \$232,000 and \$206,000, respectively. This inventory is stated at the lower of cost or market.

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7. Capital Assets and Depreciation

The capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 2,294,775	\$ -	\$ -	\$ 2,294,775
Contracts in Progress	409,547	337,118		746,665
Subtotal	<u>2,704,322</u>	<u>337,118</u>	<u>-</u>	<u>3,041,440</u>
Depreciable capital assets				
Buildings and structures	18,443,642	141,159		18,584,801
Vehicles	17,263,099	1,369,170	732,599	17,899,670
Equipment	2,694,555	82,154	98,742	2,677,967
Intangible assets	2,254,677	375,641	202,820	2,427,498
Subtotal	<u>40,655,973</u>	<u>1,968,124</u>	<u>1,034,161</u>	<u>41,589,936</u>
Accumulated depreciation	<u>15,368,424</u>	<u>3,196,284</u>	<u>1,022,961</u>	<u>17,541,747</u>
Net depreciable capital assets	<u>25,287,549</u>	<u>(1,228,160)</u>	<u>11,200</u>	<u>24,048,189</u>
Net depreciable and net capital assets	<u>\$ 27,991,871</u>	<u>\$ (891,042)</u>	<u>\$ 11,200</u>	<u>\$ 27,089,629</u>

The capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 2,294,775	\$ -	\$ -	\$ 2,294,775
Contracts in Progress	673,528	301,339	565,320	409,547
Subtotal	<u>2,968,303</u>	<u>301,339</u>	<u>565,320</u>	<u>2,704,322</u>
Depreciable capital assets				
Buildings and structures	17,539,605	904,037		18,443,642
Vehicles	14,850,795	2,412,304		17,263,099
Equipment	3,855,920	174,988	1,336,353	2,694,555
Intangible assets	1,999,209	255,468		2,254,677
Subtotal	<u>38,245,529</u>	<u>3,746,797</u>	<u>1,336,353</u>	<u>40,655,973</u>
Accumulated depreciation	<u>13,694,614</u>	<u>2,994,997</u>	<u>1,321,187</u>	<u>15,368,424</u>
Net depreciable capital assets	<u>24,550,915</u>	<u>751,800</u>	<u>15,166</u>	<u>25,287,549</u>
Net depreciable and net capital assets	<u>\$ 27,519,218</u>	<u>\$ 1,053,139</u>	<u>\$ 580,486</u>	<u>\$ 27,991,871</u>

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7. Capital Assets and Depreciation (continued)

The above land amount is inclusive of a related party capital lease in the amount of \$1,430,000, refer to Note 10 for lease details.

Depreciation expense for 2014 and 2013 was \$3,196,284 and \$2,994,997, respectively.

8. Accounts Payable and Accrued Expense

The accounts payable and accrued expense balance at June 30, 2014 and 2013 is disaggregated as follows:

	<u>2014</u>	<u>2013</u>
Payable to general vendors	\$ 1,989,171	\$ 1,573,943
Accrued salaries and benefits	133,397	267,925
Accrued interest	112,750	134,063
	<u>\$ 2,235,318</u>	<u>\$ 1,975,931</u>

9. Revenue Anticipation Notes

During the years ended June 30, 2014 and 2013, the following changes occurred in the Authority's revenue anticipation notes (RANs):

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 11,704,642	\$ 11,504,534
New notes issued	12,358,056	11,755,701
Notes retired	<u>(11,757,860)</u>	<u>(11,555,593)</u>
Ending balance	12,304,838	11,704,642
Less current portion of long-term debt	<u>(2,354,838)</u>	<u></u>
Long-term, net of current portion	<u>\$ 9,950,000</u>	<u>\$ 11,704,642</u>

The RANs outstanding at June 30, 2014, have an interest rate of 1.0%, are due in July, 2014 and are fully guaranteed by the Commonwealth of Massachusetts.

A portion of the RAN is expected to be refinanced upon maturity with generally the same terms as the note currently outstanding. Therefore, it is short-term debt expected to be refinanced and is thus classified as long-term debt.

10. Leases

The Authority rents land, under a capital lease, from the Commonwealth of Massachusetts, a related party, for \$1.00 per year. The lease commenced April 2, 2001 and terminates April 2, 2051. The land's present value as of the commencement date was recorded as a capital asset (i.e., land) and was funded via a Commonwealth capital contribution. The Authority's Hyannis Transportation Center is situated on the land and the Authority pays all operating expenses related to the property.

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11. Retirement Plans

The Authority sponsors two retirement plans for its employees.

a) Pension Plan

The Authority provides retirement benefits to employees through the Barnstable County Retirement Association (The Plan). The Plan operates a cost sharing, multi-employer, defined benefit pension plan. The Plan covers all eligible employees and provides retirement, disability, cost-of-living adjustments and death benefits to Plan members and beneficiaries.

The Plan is a member of the Massachusetts Contributory Retirement System and is governed by Massachusetts General Laws, Chapter 32. Oversight of the System is provided by a five person Retirement Board. The Plan issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the Plan located at 750 Attucks Lane, Hyannis, MA 02601.

Plan members are required to pay into the Plan 5% to 11% of their covered compensation. The Authority is required to pay into the Plan its share of the remaining Plan-wide actuarially determined contribution. This contribution is apportioned among employers based on active current payroll. The contribution requirements of plan members and the Authority are established and may be amended by Massachusetts General Laws, Chapter 32.

The Authority's Plan contribution for 2014 and 2013 was \$154,268 and \$173,520, respectively. This represented .4% of the Plan-wide contributions in both years. The above contributions were equal to the Authority's required contribution in each year.

b) Deferred Compensation Plan

The Authority has a deferred compensation plan, the Cape Cod Regional Transit Authority Deferred Compensation Plan ("the Plan"), in accordance with Internal Revenue Code Section 457, available to all employees. Under the terms of the Plan, employees who wish to participate may contribute up to a maximum of \$15,500 each year. The Authority did not contribute to the Plan in 2014 or 2013.

12. Commitments and Contingencies

a) Purchase commitments – As of June 30, 2014 and 2013 the Authority had purchase commitments of approximately \$1,192,000 and \$617,000, respectively.

b) Litigation – In the normal course of operations, the Authority has been named in various claims and litigations. Based upon information available to counsel and the Authority, management believes that the ultimate outcome from these claims and litigations will not have a material adverse effect on the Authority's financial position.

c) Federal and State Grants - The Authority has received capital and operating financial assistance from Federal and State agencies in the form of grants. Expenditure of funds under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

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12. Commitments and Contingencies (continued)

- d) Risk management - The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers compensation claims for which the Authority carries commercial insurance. Settlements have not exceeded coverages for each of the past three fiscal years.

The Authority's workers compensation coverage is insured under a retrospectively rated policy. In the opinion of management, any audit adjustment made by the insurance carrier will not be material to the accompanying financial statements.

13. Related Party Transactions

Transactions with MassDOT and the Commonwealth are as follows:

- a. Receivables are delineated in Note 5.  
b. The capital lease with the Commonwealth is referred to in Note 7 and 10.  
c. Actual operating and capital assistance for 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Operating assistance		
Commonwealth appropriations	\$ 3,782,559	\$ 3,518,841
Federal pass-through program		
Rural area assistance		46,018
Local communities' assistance	1,591,161	1,552,352
Capital assistance		
Commonwealth appropriations	911,781	241,455
Executive Office of Human Services Transportation	<u>7,691,128</u>	<u>6,959,362</u>
 Total related party transactions	 <u>\$ 13,976,629</u>	 <u>\$ 12,318,028</u>

14. Subsequent Event

Subsequent to June 30, 2014, the Authority issued a \$9,950,000 revenue anticipation note with an interest rate of 1%. This RAN will mature in July, 2015 and is fully guaranteed by the Commonwealth of Massachusetts.

15. Reserve for Extraordinary Expense

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 in an amount not to exceed three percent of the prior year's local assessment. Any balance in the reserve account at the end of the fiscal year may be carried forward into the next fiscal year; provided, however, that the aggregate amount in the account does not exceed twenty percent of the prior year's local assessment. The Authority did not increase the reserve for extraordinary expense in 2014. It did use \$128,257 of the reserve to fund certain operating and capital expenditures. The aggregate reserve balance at June 30, 2014 and 2013 was none and \$128,257, respectively.

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16. Post Employment Healthcare Benefits

On September 19, 2012, the Advisory Board approved a proposal to authorize the Authority to institute a post employment healthcare plan. The specifics of the Plan have not been formalized as yet. The Plan will not go into effect until January 1, 2015.

CAPE COD REGIONAL TRANSIT AUTHORITY  
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Schedule 1

Statement of Net Cost of Service (Unaudited)  
Year ended June 30, 2014  
Form 1

	<u>Urbanized Area</u> <u>Service</u>	<u>Rural Area</u> <u>Service</u>	<u>Total Area</u> <u>Service</u>
I. Operating Costs			
A. RTA administrative costs (excluding depreciation)	\$ 979,908	172,924	
B. Purchased services			
Fixed route	4,637,746	818,426	
Demand response	5,432,049	958,597	
Brokerage services	6,537,459	1,153,669	
Rail - CapeFlyer	179,716	31,715	
C. Debt Service	56,849	10,032	
Total Operating Costs	17,823,727	3,145,363	20,969,090
II. Federal Operating Assistance			
A. FTA operating and administrative	6,172,380		
B. Other federal			
Total Federal Assistance	6,172,380	-	6,172,380
III. Revenues			
A. Operating			
1. Farebox Revenue	980,880	300,979	1,281,859
B. Brokerage service reimbursement	6,537,459	1,153,669	7,691,128
C. Other third party reimbursement	51,600		51,600
D. Rail - CapeFlyer	59,638	10,524	70,162
E. MEMA Grant	15,053	2,656	17,709
F. Other Revenues			
1. Parking	150,453		
2. Interest income	25,816	485	
3. Sale of capital assets	2,746		
3. Miscellaneous	65,877		
Total Other Revenues	244,892	485	245,377
IV. Net Operating Deficit (I-II-III)	3,761,825	1,677,050	5,438,875
V. Adjustments			
A. Extraordinary expenses (not to exceed 2.5% of prior year's local assessment)			
B. Use of reserve for contingencies	(82,864)		
	(82,864)	-	(82,864)
VI. Net Cost of Service (IV+V)	3,678,961	1,677,050	5,356,011
VII. Net Cost of Service Funding			
A. Local Assessments	1,092,944	498,217	1,591,161
B. State contract assistance	2,586,017	1,178,833	3,764,850
1. LESS: Adjustment for exceeding 2.5% cap on prior year net operating expenses			
2. LESS: Amount received from prior year carryover			-
C. State Contract Assistance to be funded			3,764,850
1. LESS: Partial payment made by MassDOT			3,764,850
D. Balance requested from the State			-
VIII. Unreimbursed Deficit (VI-VIIA-VIIC)			

CAPE COD REGIONAL TRANSIT AUTHORITY  
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Schedule 2

Net Cost of Service-Calculation Worksheet (Unaudited)  
Year Ended June 30, 2014  
Form 2

I. Proof calculations and other required information:

A. Prior year operating exp., net of fully funded brokerage serv. costs	\$	11,594,731
Allowable percentage increase:		2.50%
Prior year, net operating expenses times 2.5%		<u>289,868</u>
Current year, allowable net operating expense		<u>11,884,599</u>
Plus adjustments:		
ADA expenses in excess of the 2.5% cap		679,083
Brokerage funded costs		7,691,128
New service costs		570,388
Other fully funded		<u>143,892</u>
	\$	<u><u>20,969,090</u></u>
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	\$	-
Prior year local assessment		<u>1,552,352</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)		<u>3%</u>
C. Aggregate amount of reserve account at June 30.	\$	-
Prior year local assessment		<u>1,552,352</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)		<u>0%</u>
D. State the management fee paid to major service providers as a percentage of operating costs incurred.		1%
E. State the percentage of benefits paid by RTA on behalf of RTA employees for:		
1. Group life and accidental death insurance		75%
2. Group health insurance		75%
F. State the brokerage service contract cost as a percentage of total operating costs.		37%
G. Stabilization Fund:		
1. Current year	\$	-
2. Aggregate balance	\$	<u>-</u>

Schedule of Local (Towns) Funding (Unaudited)

Year Ended June 30, 2014

<u>Community</u>	<u>Share</u>
Provincetown	\$ 95,230
Truro	47,628
Wellfleet	47,719
Eastham	47,597
Orleans	79,178
Chatham	16,154
Brewster	47,639
Harwich	95,445
Dennis	95,564
Yarmouth	143,011
Barnstable	509,433
Sandwich	95,739
Falmouth	159,190
Mashpee	63,634
Bourne	<u>48,000</u>
	<u>\$ 1,591,161</u>

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Schedule 4

Schedule of Compensation Required by Massachusetts (Unaudited)  
Executive Office for Administration and Finance  
June 30, 2014

<u>Title</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>Severance</u>	<u>Retirement Contribution</u>	<u>Other</u>
Administrator	\$ 115,000	\$ -	\$ -	\$ 21,198	\$ 6,590
Finance Director	80,500	-	-	14,439	17,393
Other employees	-	-	-	-	-
Advisory Board Members	-	-	-	-	-