

State Compliance Audit

Casco Bay Island Transit District

March 31, 2012



Proven Expertise and Integrity

CASCO BAY ISLAND TRANSIT DISTRICT

MARCH 31, 2012

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INDEPENDENT AUDITORS' REPORT

May 9, 2012

Board of Directors
Casco Bay Island Transit District
Portland, Maine

We have audited the accompanying financial statements of the business-type activities of Casco Bay Island Transit District as of and for the year ended March 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Casco Bay Island Transit District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Maine Uniform Accounting and Auditing Practices for Community Agencies. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Casco Bay Island Transit District, as of March 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2012 on our consideration of Casco Bay Island Transit District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and provisions of laws, regulations, contracts and grants 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Casco Bay Island Transit District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

RHR Smith & Company

Certified Public Accountants

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2012**

(UNAUDITED)

The management of Casco Bay Island Transit District (herein referred as "the District") offers readers of our financial statements the following narrative overview and analysis of our financial activities for the fiscal year ended March 31, 2012.

This Management's Discussion and Analysis report provides an opportunity, through narrative, for the District's management to identify elements of the audited financial statements that might be of particular interest to the reader. Please read it in conjunction with the District's financial statements.

Prologue

After many years of operating in a deficit and the associated cost of debt, the District's financial performance had an increase in Unrestricted Net Assets for a third year in a row. This was due primarily to increased financial oversight and management. As a result, the District's Unrestricted Net Assets increased by \$211,585 in Fiscal Year 2012. Since April 1, 2009 Unrestricted Net Assets has improved from (\$979,173) to (\$223,103). It should be noted that \$95,282 of this amount was due to a decision in FY2011 to begin recording inventory retroactive to FY2010. This turn-around was accomplished by, among other things, the Board's direction to include an expense line item in the budget to provide for deficit reduction. One of the outcomes of this was a reduction in the cost of debt. It will take a couple more years of similar performance in order to achieve positive Unrestricted Net Assets.

The following items are worth noting:

- The District and the newly formed Maine Marine Association representing the new collective bargaining units ratified successor collective bargaining agreements for a three-year term expiring on March 15, 2015. The negotiations were collaborative and much quicker than had historically been the case resulting in agreements that were mutually beneficial. Since the negotiations took significantly less time than in the past a considerable cost savings was realized by both sides;
- The FY 2013 budget was approved at the April 2012 District Board of Directors meeting;
- The line of credit was used for only five months in FY2012, two months less than the previous year. Some of this was due to a billing error by the fuel provider which resulted in delayed payments for several months;
- Key performance indicators for the District continued to be identified and tracked. They were updated monthly and posted on the website.;
- A fare increase for Great Diamond and Long Islands to cover costs associated with additional Winter service to these islands was approved at

- the February 2011 Board meeting. However, the fare increase was not implemented until the beginning of the winter schedule in October 2011. A new freight category for fuel carried on vehicles was approved at the May 26, 2011 Board meeting. The fare went into effect in October 2011. At the February 2012 Board meeting, rate increases were also approved for Mailboat, Sunrise, Sunset and Diamond Pass cruise passenger tickets effective April 16, 2012;
- A Federal grant was approved, but not yet awarded, for the implementation of Automatic Vehicle Location/Real Time Passenger Information. The value of the grant is approximately \$75,000 (80% Federal share/20% local share)
- Ridership increased 3.3% over the previous fiscal year;
- The number of charters increased by 7.1% over the previous fiscal year;
- The number of vehicles transported increased by 9.1%. However, this was due primarily to the car ferry being in dry dock during the month of March 2011;
- A long term Capital Plan was developed and submitted to the Board's Operations Committee;
- Discussions continue with the City of Portland regarding the terms of the District's lease with the City. No agreement has been reached yet;
- Construction began in March 2012 on the District's new vessel at Blount Marine in Warren, Rhode Island. An RFP was issued by Maine Department of Transportation for the District's new vessel: the M/V WABANAKI. Construction was delayed due to new Coast Guard requirements and the building queue at the shipyard. Construction is being managed by Maine Department of Transportation. The new vessel is expected to be delivered in late summer of 2013. CBITD has owned several Blount built vessels over the years;
- An RFP was issued for the renovation of the Casco Bay ferry terminal including the marine side of the facility. The work was awarded to Scott Simons Architects. A master plan was developed and shared with stakeholders in various public forums. A dive survey of the marine structures was conducted. A cost estimate will be prepared for the marine structure repair work and an RFP issued for the construction work. The scope of the terminal renovation will be revisited to determine how much can be done with the remaining funds;
- Wi-Fi has been a huge success in the Terminal and on the boats. Commuters, students and tourists are using it while waiting in the terminal and/or riding on the boats;
- An RFP was issued for the development and implementation of an Internet Marketing Plan to improve how information is disseminated to island residents and to generate new business opportunities. The heart of this will be a new website. The final selection of the vendor is in process;
- The implementation of electronic ticketing continues. It was determined that the operating software for the ticketing system was nearing its end of life and, therefore, upgraded. It took a couple of months to get it fully operational so

- we are ready to start a slow phase in of the bar code scanning of passenger tickets. The goals are:
 - Improve customer service
 - Improve operational efficiencies
 - Improve the reliability of data collection and reporting
 - Create the ability to incorporate two-way ticketing if desired.

BASIC FINANCIAL STATEMENTS

Our basic financial statements are prepared utilizing propriety fund (enterprise fund) accounting that uses the same basis of accounting as the private-sector business enterprises. The District is accounted for as an accrual basis enterprise fund. This method of accounting has an economic resources measurement focus using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a balance sheet, statement of revenues, expenses and changes in net assets and a statement of cash flows. These are followed by the notes to the financial statements. In addition to the basic financial statements, this report also contains the required supplementary information that pertains to the District's retirement/pension plan.

The balance sheet presents information on assets and liabilities, with the difference between the two reported as net assets. In comparisons over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net assets reports the operating revenue, non-operating revenue and expenses of the District for the fiscal year. The difference (net income or loss) is combined with the activity in capital grants to determine the change in net assets for the fiscal year. This change in net assets, when added to the net asset total from the previous fiscal year, reconciles to the net asset total at the end of the current fiscal year.

The statement of cash flows reports the changes in cash and cash equivalents for the fiscal year resulting from operating activities, financing activities and investing activities. The net result of these activities added to the beginning cash and cash equivalent balance for the fiscal year results in the cash and cash equivalent balance at the end of the current fiscal year.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended March 31, 2012 are as follows:

- Unrestricted Net Assets increased by \$211,585 to (\$223,103);
- The District's capital assets were \$4,654,010 a decrease of \$307,370;
- Total liabilities decreased by \$361,217 (33.5%). Most of this decrease is due to the reduction in short-term liabilities (refer to discussion above regarding the line of credit) and accounts payable;
- Overall, total liabilities and net assets decreased by 9.8% compared with FY 2011.

ANALYSIS OF THE FINANCIAL STATEMENTS

As of March 31, 2012 total assets were \$5,147,063. Of this amount, \$4,654,010 consisted of capital assets net of accumulated depreciation.

As of March 31, 2012, total liabilities were \$716,156.

As of March 31, 2012, net assets were \$4,430,907. Of this amount, \$4,654,010 was invested in capital assets and (\$223,103) was unrestricted. In comparison, as of March 31, 2011, net assets were \$4,626,692. Of this amount, \$4,961,380 was invested in capital assets, net of related debt and \$100,000 was restricted for future debt payment and (\$434,688) was unrestricted.

Operating revenues totaling \$4,594,498 (increase of 1.4%) consisted of:

- \$2,295,805 in Passenger revenues (increase of 3.9%)
- \$852,738 in Vehicle revenues (increase of 6.0%)
- \$531,716 in Freight revenues (decrease of 0.8%)
- \$111,904 for the US Mail contract (increase of 2.9%)
- \$367,776 in Tours & Cruises passenger revenues (decrease of 4.7%)
- \$367,780 in Charters/Catering revenues (decrease of 2.0%)
- \$66,779 in miscellaneous revenues (increase of 0%)

Operating expenses totaling \$5,632,396 (increase of 3.6%) consisted of:

- \$2,830,628 in Personnel related expenses (increase of 3.3%)
- \$1,352,804 in Vessel expenses (increase of 16.2%)
- \$96,439 in vessel and terminal insurance expense (increase of 0.8%)
- \$320,153 in Operation expenses (No change)
- \$262,807 in Terminal expenses (decrease of 8.3%)
- \$189,574 in Sales related expenses (decrease of 19.7%)
- \$533,550 in Depreciation expense (increase of 0.8%)

A detailed listing of expenses as of March 31, 2012 can be found on Page 10 of the District's audited financial statements.

A depreciation schedule for the District's Vessels is as follows:

VESSELS:	COST	METHOD	ANNUAL AMOUNT	ACCUMULATED DEPRECIATION
Island Romance 5/31/1983	\$ 225,000	SL 15 yrs	-0-	\$ 225,000
Machigonne II 3/31/1988	\$1,174,874	SL 25 yrs	\$ 46,995	\$ 1,127,886
Maquoit II 3/1/1995	\$1,822,292	SL 25 yrs	\$ 72,892	\$ 1,239,160
Bay Mist 4/17/1998	\$ 622,000	SL 15 yrs	\$ 41,467	\$ 580,534
Aucocisco III 6/2/2005	\$2,967,061	SL 25 yrs	\$118,682	\$ 830,777

Requests for Information

This financial report is intended to provide an overview of the finances of the Casco Bay Island Transit District. Questions concerning any information contained in this report should be directed to the following:

Respectfully submitted,

Henry Berg
General Manager

Barbara Sawtelle
Finance Director

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENTS OF NET ASSETS
MARCH 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 184,459	\$ 295,221
Accounts receivable (net of allowance for uncollectible accounts)	15,475	12,592
Grants receivable	112,389	159,415
Inventory	124,520	118,545
Prepaid expenses	56,210	56,913
TOTAL CURRENT ASSETS	<u>493,053</u>	<u>642,686</u>
NONCURRENT ASSETS		
Capital assets:		
Buildings and equipment, net of accumulated depreciation	4,654,010	4,961,380
Restricted cash	-	100,000
	<u>4,654,010</u>	<u>5,061,380</u>
TOTAL ASSETS	<u>\$ 5,147,063</u>	<u>\$ 5,704,065</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Account payable	\$ 162,547	\$ 342,816
Accrued payroll and payroll taxes	46,765	73,120
Accrued compensated absences	72,749	58,732
Accrued pension	123,206	118,760
Accrued interest	-	1,113
Accrued health insurance	-	23,564
Other accrued liabilities	12,696	13,343
Line of credit	250,000	400,000
Charter deposits	28,200	25,700
Unearned revenue	19,993	20,225
TOTAL CURRENT LIABILITIES	<u>716,156</u>	<u>1,077,373</u>
TOTAL LIABILITIES	<u>716,156</u>	<u>1,077,373</u>
NET ASSETS		
Invested in capital assets	4,654,010	4,961,380
Restricted net assets	-	100,000
Unrestricted net assets	<u>(223,103)</u>	<u>(434,688)</u>
TOTAL NET ASSETS	<u>4,430,907</u>	<u>4,626,692</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,147,063</u>	<u>\$ 5,704,065</u>

See accompanying independent auditors' report and notes to financial statements.

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MARCH 31,

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Passenger fares	\$ 2,295,805	\$ 2,208,790
Vehicles	852,738	804,150
Freight	531,716	535,824
Mail contract	111,904	108,802
Tours and cruises	367,776	385,776
Charters	213,857	218,294
Catering	153,923	203,491
Miscellaneous	66,779	66,760
TOTAL OPERATING REVENUES	<u>4,594,498</u>	<u>4,531,887</u>
OPERATING EXPENSES	<u>5,632,396</u>	<u>5,434,840</u>
OPERATING LOSS	<u>(1,037,898)</u>	<u>(902,953)</u>
NONOPERATING REVENUES (EXPENSES):		
U.S. Department of Transportation, Federal Transit Administration grant	624,767	605,641
State of Maine grants	89,929	155,376
Interest income	61	404
Interest expense	(4,894)	(10,027)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>709,863</u>	<u>751,394</u>
LOSS BEFORE CAPITAL GRANT REVENUE	<u>(328,035)</u>	<u>(151,559)</u>
CAPITAL GRANT REVENUE:		
U.S. Department of Transportation, Federal Transit Administration grant	53,000	-
State of Maine grants	37,109	44,511
Other Capital Revenue	42,141	-
TOTAL CAPITAL GRANT REVENUE	<u>132,250</u>	<u>44,511</u>
DECREASE IN NET ASSETS	(195,785)	(107,048)
NET ASSETS - APRIL 1	<u>4,626,692</u>	<u>4,733,740</u>
NET ASSETS - MARCH 31	<u>\$ 4,430,907</u>	<u>\$ 4,626,692</u>

See accompanying independent auditors' report and notes to financial statements.

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENT OF EXPENSES
FOR THE YEARS ENDED MARCH 31,

	<u>2012</u>	<u>2011</u>
OPERATING EXPENSES		
Salaries and wages	\$ 2,154,990	\$ 2,086,321
Payroll taxes	166,641	153,712
Employee benefits	234,005	254,777
Pension plan	274,992	244,084
Repairs and maintenance	659,127	634,396
Fuel	693,677	529,467
Insurance	96,439	95,693
Telephone	9,164	9,552
Mail agent	10,200	10,200
Office expense	143,224	141,959
Postage	3,292	3,496
Travel	6,014	4,230
Injuries and damages	9,713	9,787
Professional fees	103,441	106,758
Dues and subscriptions	14,195	14,247
Uniforms	16,721	19,634
Training	4,189	437
Heat and utilities	58,086	58,126
Janitorial	61,827	53,910
Rent	29,082	30,204
Terminal	113,812	144,430
Advertising	74,255	87,666
Catering	115,319	148,486
Depreciation	533,550	529,443
Amortization	-	216
Miscellaneous	46,441	63,609
	<u>\$ 5,632,396</u>	<u>\$ 5,434,840</u>

See accompanying independent auditors' report and notes to financial statements.

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,593,883	\$ 4,531,419
Payments to employees	(2,862,731)	(2,659,733)
Payments to suppliers and vendors	(2,453,760)	(2,107,502)
Net cash provided (used) by operating activities	(722,608)	(235,816)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Federal maintenance grant	724,793	735,624
State subsidy grant	127,038	199,887
Other	42,141	-
Net cash provided by noncapital financing activities	893,972	935,511
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	61	404
(Increase) decrease in restricted cash	100,000	-
Net cash provided by investing activities	100,061	404
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property, plant and equipment	(226,180)	(78,837)
Interest paid	(6,007)	(15,005)
Principal paid on long-term debt	-	(150,000)
Net increase (decrease) in borrowings on line of credit	(150,000)	(325,000)
Net cash (used) by capital and related financing activities	(382,187)	(568,842)
NET (DECREASE) IN CASH	(110,762)	131,258
CASH - APRIL 1	295,221	163,963
CASH - MARCH 31	\$ 184,459	\$ 295,221
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,037,898)	\$ (902,953)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	533,550	529,443
Amortization expense	-	216
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(2,883)	842
(Increase) decrease in prepaid expense	702	(19,186)
(Increase) decrease in inventory	(5,975)	(23,263)
Increase (decrease) in accounts payable	(180,269)	101,234
Increase (decrease) in accrued payroll and payroll taxes	(26,355)	47,551
Increase (decrease) in accrued compensated absences	14,017	3,033
Increase (decrease) in accrued pension	4,446	1,018
Increase (decrease) in accrued health insurance	(23,564)	23,564
Increase (decrease) in other accrued liabilities	(647)	3,995
Increase (decrease) in charter deposits	2,500	(1,600)
Increase (decrease) in unearned revenue	(232)	290
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (722,608)	\$ (235,816)

See accompanying independent auditors' report and notes to financial statements.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Casco Bay Island Transit District operates a year-round ferry service to the islands of Casco Bay as well as tours and charter trips. The District was created by the P&S Law, 1981 Chapter 22 of the State of Maine, as a transit district. The Directors of the District have charge of and supervise the management, operation, and direction of all business and affairs of the District, including the issuance of debt. The Directors of the District are determined by election as provided for in P&S Law, 1981 Chapter 22. The District receives capital grants from local, State of Maine and Federal government sources and operating subsidies from the State of Maine and Federal government sources and must comply with requirements of these funding sources.

Basis of Accounting

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the District to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the option of following subsequent private-sector guidance, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

Financial Statement Presentation

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for ferry fares; operating expenses include the services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all purchased government securities to be held on to for three months or less when purchased, to be cash equivalents.

Accounts Receivable

The District provides credit to customers in the District, which consist of businesses and governmental agencies.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets owned by the District are stated at the cost to acquire or construct the asset. Routine maintenance and repairs are charged against income. Expenses, which materially increase values, change capacities, or extend useful lives, are capitalized. The provision for depreciation has been computed by the use of the straight line method at rates intended to amortize the cost of the related assets over their estimated useful lives, ranging from 5-25 years.

Inventories

Inventory is stated at cost determined by the first-in, first-out method. Inventory consists of replacement vessel parts.

Restricted Cash and Restricted Net Assets

Restricted cash and restricted net assets are comprised of cash restricted for bond payment.

Accrued Compensated Absences

Employees of the District are entitled to be paid vacation and paid sick days depending on job classification, length of service and other factors. The District's policy is to recognize the cost of sick days when actually paid to employees. There is no liability to pay accrued sick days, as the District is not obligated for payment upon termination of employment. Accrued vacation pay at March 31, 2012 was \$72,749.

Budget

The District is not legally required to adopt a budget. Therefore, no budgetary comparison is presented.

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 certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 2 – CASH

Deposits

The District's investment policies, which follow state statutes, authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. These investment policies apply to all District funds.

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The District does not have a policy covering custodial credit risk.

At March 31, 2012, the District's deposits amounting to \$418,725 were comprised of \$184,052 which was insured by federal depository insurance and consequently was not exposed to custodial credit risk. The District also has an overnight repurchase agreement for their checking account in the amount of \$234,673. In addition, the District had a petty cash/change fund balance of \$5,350 as of March 31, 2012.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 418,673
Savings accounts	52
	<u>\$ 418,725</u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 3 – CAPITAL ASSETS

The following is a summary of the changes in capital assets from March 31, 2012:

	Balance, 4/1/11	Additions	Disposals	Balance, 3/31/12
Non-depreciated assets:				
Construction in progress	\$ 112,431	\$ -	\$ -	\$ 112,431
	<u>112,431</u>	<u>-</u>	<u>-</u>	<u>112,431</u>
Depreciated assets:				
Leasehold improvements	670,005	36,544	-	706,549
Equipment	837,111	92,679	-	929,790
Vessels	9,879,207	96,957	-	9,976,164
	<u>11,386,323</u>	<u>226,180</u>	<u>-</u>	<u>11,612,503</u>
Less: accumulated depreciation	<u>(6,537,374)</u>	<u>(533,550)</u>	<u>-</u>	<u>(7,070,924)</u>
	<u>4,848,949</u>	<u>(307,370)</u>	<u>-</u>	<u>4,541,579</u>
Net capital assets	<u>\$ 4,961,380</u>	<u>\$ (307,370)</u>	<u>\$ -</u>	<u>\$ 4,654,010</u>

NOTE 4 – LINE OF CREDIT (RAN)

The District has established an unsecured line of credit (RAN) with Gorham Savings Bank, N.A. of \$1,400,000 for current operating expenses. The interest rate was 2.25% as of March 31, 2012 and 2011 and had a balance outstanding of \$250,000 as of March 31, 2012 and \$400,000 as of March 31, 2011.

NOTE 5 – PENSION PLAN

The District has a non-contributory money purchase plan. All employees are eligible to participate in the plan if they are at least 20 years of age and have completed one year of eligible service. The District's contribution rate is 15% of the total compensation of all eligible participants and is funded currently. Effective March 16, 2011 the rate changed to 8% for new participants to the plan. The plan also reflects credits against current year expense for nonvested amounts of employees who are no longer employed by the District. The District's total contribution for the year ended March 31, 2012 and 2011 were \$274,992 and \$244,084, respectively.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 6 – OPERATING LEASES

The District has a lease agreement with the City of Portland to lease their facilities in the Casco Bay Ferry Terminal. The lease began March 5th, 1985 and the lease term is for thirty years. The amount of future minimum lease payments had been agreed upon through March 31, 2017. The City of Portland and the District are in the process of establishing the new future lease payments. The increase in minimum rental payments will be no less than the annual rate of inflation for the twelve months immediately preceding September 1, 2005.

The annual rent will be 5% of gross revenues from tours and cruises and charter operations.

The District will pay to the City, no later than November 15 of each year, an amount equal to 5% of gross revenues mentioned above for each fiscal year from April 1st to March 31st. This amount will be reduced by the monthly payments already paid to the City during the year. The District is responsible for all costs and expenses related to the Casco Bay Ferry Terminal.

In the lease, the City agreed to establish a maintenance fund to assist the District with major repairs and maintenance of the Terminal facility. The fund will consist of 50% of the annual net revenues (less the City's annual cost of all casualty insurance covering the Terminal) received by the City from the 190 parking spaces in the parking garage adjacent to the Terminal, which were funded by the Federal Transit Administration. The District and the City have not reached an agreement on the appropriate allocation of revenues and expenses at the parking garage.

The District entered into a rental agreement with the State of Maine Department of Transportation for the right to use pier facilities on the islands the District serves. The rental period shall run for a period of twelve years beginning April 1, 2009. In lieu of annual rental payments, the District agrees to perform minor maintenance activities that require prompt attention.

The total rent and minor repairs expense for the year ended March 31, 2012 was \$59,661.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 6 – OPERATING LEASES (CONTINUED)

Future minimum lease payments for the following years ending March 31 are as follows:

2013	\$ 16,000
2014	16,000
2015	16,000
2016	16,000
2017	16,000
	<u>\$ 80,000</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Equipment and three vessels owned and operated by the District were purchased, in part, with grants from the Federal Transit Administration. Upon disposal of the vessels or equipment that sell for more than \$1,000, the District may be required to return a portion of the funds to the FTA in proportion to the original percentage of Federal funds contributed by the FTA. That proportion would be approximately 80%.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

NOTE 8 – RECONCILIATIONS OF NET ASSETS

	Unrestricted net assets	Restricted	Invested in capital assets	Total
Operating Revenues	\$ 4,594,498	\$ -	\$ -	\$ 4,594,498
Operating Expenses	(5,632,396)	-	-	(5,632,396)
Nonoperating revenues (expenses)	709,863	-	-	709,863
Capital Grant Revenues	132,250	-	-	132,250
Depreciation expense	533,550	-	(533,550)	-
Change in fixed assets account not in expenses	(226,180)	-	226,180	-
Change in restricted cash	100,000	(100,000)	-	-
Increase(Decrease) in Net Assets	211,585	(100,000)	(307,370)	(195,785)
Net Assets - April 1, 2011	(434,688)	100,000	4,961,380	4,626,692
Net Assets - March 31, 2012	\$ (223,103)	\$ -	\$ 4,654,010	\$ 4,430,907

Summary of Increase (Decrease) in Net Assets:

Provision for deficit reduction account	\$ 200,000
(Loss) above provision for deficit reduction account for unrestricted funds	11,585
Increase(Decrease) in Net Assets	<u>\$ 211,585</u>

CASCO BAY ISLAND TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED MARCH 31, 2012

Pass-through Grantor/ Program Title	<u>CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass Through Federal Transit Administration:			
Maine Department of Transportation			
Federal Transit Formula Grants	20.507	ME-30-0044	\$ 27,407
Federal Transit Formula Grants	20.507	ME-95-X008	25,593
Federal Transit Formula Grants	20.507	ME-90-X181	70,000
Federal Transit Formula Grants	20.507	ME-90-0186	<u>283,359</u>
			<u>406,359</u>
Formula Grants for Other than Urbanized Areas	20.509	PIN 17195	36,531
Formula Grants for Other than Urbanized Areas	20.509	ME-18-X047	<u>234,877</u>
			<u>271,408</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 677,767</u></u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2012

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Casco Bay Island Transit District. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. Major Programs - Federal

The following program was considered a major program as defined by OMB Circular A-133:

Formula Grants for Other than Urbanized Areas CDFA #20.509



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 9, 2012

Board of Directors
Casco Bay Island Transit District
Portland, Maine

We have audited the financial statements of Casco Bay Island Transit District as of and for the year ended March 31, 2012, and have issued our report thereon dated May 9, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Casco Bay Island Transit District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Casco Bay Island Transit District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Casco Bay Island Transit District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not necessarily designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Casco Bay Island Transit District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

RHR Smith & Company

Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

May 9, 2012

Board of Directors
Casco Bay Island Transit District
Portland, Maine

Compliance

We have audited the compliance of Casco Bay Island Transit District with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2012. Casco Bay Island Transit District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Casco Bay Island Transit District's management. Our responsibility is to express an opinion on Casco Bay Island Transit District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Casco Bay Island Transit District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Casco Bay Island Transit District's compliance with those requirements.

In our opinion, Casco Bay Island Transit District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012.

Internal Control over Compliance

The management of Casco Bay Island Transit District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Casco Bay Island Transit District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Casco Bay Island Transit District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance; such that there is a reasonable possibility that a material weakness with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

RHR Smith & Company

Certified Public Accountants

CASCO BAY TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED MARCH 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued : Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no
- Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of OMB Circular A-133? yes no
Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

20.509

Formula Grants for Other than Urbanized Areas

Dollar threshold used to distinguish between type A and B: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

NONE

Section III – Federal Awards Findings and Questioned Costs

NONE



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ACCOUNTANT COMPILATION REPORT ON SCHEDULE OF AGREEMENT
OPERATIONS AND AGREEMENT SETTLEMENT FORMS

May 9, 2012

Board of Directors
Casco Bay Island Transit District
Portland, Maine

We have compiled the accompanying schedule of agreement operations and agreement settlement forms for the Casco Bay Island Transit District as of and for the year ended March 31, 2012 in accordance with standards for accounting and review services established by the American Institute of Certified Public Accountants and the Maine Uniform Accounting and Auditing Practices for Community Agencies(MAAP).

Our compilation was limited to presenting in the form prescribed by the Department of Transportation under Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP) information that is the representation of the management of the Casco Bay Island Transit District. We have not audited or reviewed the schedule of agreement operations or the agreement settlement form referred to above and, accordingly; do not express an opinion or any other form of assurance on them.

The schedule of agreement operations and agreement settlement forms are presented in accordance with the requirements of MAAP, and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the management of the Casco Bay Island Transit District and is not intended to be and should not be used by anyone other than these specified parties.

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ACCOUNTANTS' COMPILATION REPORT
ON AGREEMENT SETTLEMENT FORMS

May 9, 2012

Board of Directors
Casco Bay Island Transit District
Portland, Maine

We have compiled the accompanying Agreement Settlement Forms of Casco Bay Island Transit District as of March 31, 2012 and for the year then ended, in accordance with Statements for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

RHR Smith & Company

Certified Public Accountants

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AGREEMENT SETTLEMENT FORM (ASF)

Community Agency: Casco Bay Island Transit District
 Fiscal Year End: March 31, 2012
 Contract Number: 16086
 Contract Amount: \$500,000
 Contract Period: 1/1/09-3/30/12

	Operating	Admin	Capital	Total
Gross Expenditures	\$ -	\$ -	\$ 500,000	\$ 500,000
Less:				
Contra-Expenditures	\$ -	\$ -	\$ -	\$ -
Operating Revenue	\$ -	\$ -	\$ -	\$ -
Excess Unrestricted Fed	\$ -	\$ -	\$ -	\$ -
Total Deductions	\$ -	\$ -	\$ -	\$ -
Net Expenditures/Deficit	\$ -	\$ -	\$ 500,000	\$ -
<u>Federal Share</u>				
Maximum %	0%	0%	100%	
Amount Paid	\$ -	\$ -	\$ 500,000	\$ 500,000
Maximum Amount	\$ -	\$ -	\$ 500,000	\$ 500,000
Over (Under) Maximum	\$ -	\$ -	\$ -	\$ -
<u>State Share</u>				
Maximum%	0%	0%	0%	
Amount Paid	\$ -	\$ -	\$ -	\$ -
Maximum Amount	\$ -	\$ -	\$ -	\$ -
Over (Under) Maximum	\$ -	\$ -	\$ -	\$ -
<u>Summary</u>				
Federal Over Paid	\$ -	\$ -	\$ -	\$ -
State Over Paid	\$ -	\$ -	\$ -	\$ -
Total Over Paid	\$ -	\$ -	\$ -	\$ -

AGREEMENT SETTLEMENT FORM (ASF)

Community Agency: Casco Bay Island Transit District
 Fiscal Year: March 31, 2012
 Contract Number: 16246
 Contract Amount: \$237,100

Total Operating Costs		\$ 1,311,316
Less:		
Fares		(432,907)
Net Operating Deficit		\$ 878,409
Surplus/(Deficit)		\$ (878,409)

Federal Participating Share

1. Amount of Non-Federal Funds Contributed:		
State	\$ -	
Local	197,849	
Total Non-Fed		197,849
2. 50% of the net Project Costs:		
Federal Share @ 50%		340,280
3. Operating Deficit After Adding Local Funds But Before		
Operating Costs	1,311,316	
Less:		
Fares	432,907	
State	-	
Local	197,849	
Deficit Before UMTA		680,560
4. Maximum Amount of Grant		
Federal Share Paid		237,100
Participating Share (Steps 1-4)		340,280
Federal Over (Under) Paid		\$ (103,180)

State Participating Share

Maximum Authorized Amount		
State Share	\$ -	
State Share Paid	-	
State Over (Under) Paid	\$ -	

AGREEMENT SETTLEMENT FORM (ASF)

Community Agency: Casco Bay Island Transit District
 Fiscal Year: March 31, 2012
 Contract Number: 17950
 Contract Amount: \$45,052

Total Operating Costs		\$ 838,689
Less:		
Fares		(348,969)
Net Operating Deficit		\$ 489,720
Surplus/(Deficit)		\$ (489,720)

Federal Participating Share

1. Amount of Non-Federal Funds Contributed:		
State	\$ 45,052	
Local	-	
Total Non-Fed	-	45,052
2. 50% of the net Project Costs:		
Federal Share @ 0%		-
3. Operating Deficit After Adding Local Funds But Before		
Operating Costs	838,689	
Less:		
Fares	348,969	
State	45,052	
Local	-	
Deficit Before UMTA	-	444,668
4. Maximum Amount of Grant		
Federal Share Paid		-
Participating Share (Steps 1-4)		-
Federal Over (Under) Paid		\$ -

State Participating Share

Maximum Authorized Amount		
State Share	\$ 45,052	
State Share Paid	45,052	
State Over (Under) Paid	\$ -	