

# State Compliance Audit

## Casco Bay Island Transit District

March 31, 2011



*Proven Expertise and Integrity*

CASCO BAY ISLAND TRANSIT DISTRICT

MARCH 31, 2011

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## INDEPENDENT AUDITORS' REPORT

May 17, 2011

Board of Directors  
Casco Bay Island Transit District  
Portland, Maine

We have audited the accompanying financial statements of Casco Bay Island Transit District as of and for the year ended March 31, 2011, which collectively comprise the Casco Bay Island Transit District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Casco Bay Island Transit District's management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Casco Bay Island Transit District, as of March 31, 2011, and the respective changes in financial position and cash flows, 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 17, 2011 on our consideration of the Casco Bay Island Transit District internal control over financial reporting and our tests of its compliance with certain 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 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to an essential part of financial reporting for placing the basic financial statement 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 the Casco Bay Island Transit District financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedules of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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, 2011**

**(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, 2011.

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 with the associated cost of debt, the District's financial performance had an increase in Unrestricted Net Assets for a second year in a row. This was primarily due to increased financial oversight and management. As a result of this, the District's Unrestricted Net Assets increased by \$193,550 in Fiscal Year 2011. Since April 1, 2009 Unrestricted Net Assets has improved from (\$979,173) to (\$434,688). It should be noted that \$95,282 of this was due to a decision in FY2011 to start recording inventory and to make it retroactive to FY2010. This turn-around was accomplished by, among other things, the Board's direction to include an expense line item to provide for deficit reduction. One of the outcomes of this was a reduction in the cost of debt. It will take several years of similar performance to achieve positive Unrestricted Net Assets.

There are several items worth noting:

- The District and the United Marine Division Local 333 ratified successor collective bargaining unit agreements for a three-year term expiring on March 15, 2012. Retroactive pay for wages and the company contribution for health insurance were included.
- At its October 2010 meeting, the District's Board approved the adoption of a Fund Balance policy.
- At its November 2010 meeting, the District's Board approved paying off the balance of the note on the vessel Aucociso, thus eliminating the cost of long term debt
- FY 2012 budget was approved at the March 2011 District Board of Directors meeting
- The line of credit was used for seven months in FY2011, two months less than the previous year.
- Key performance indicators for the District were identified and tracked. They are updated monthly and posted on the web-site.
- Passenger and freight rates did not change in FY2011; however, during the February 2011 Board meeting, a fare increase was approved for Great

- Diamond and Long Islands to cover costs associated with additional Winter service to these islands. The fare increase will not be implemented until October 2011. During the January 2011 Board meeting, rate increases were also approved for Mailboat, Sunrise, Sunset and Diamond Pass cruise passenger tickets effective April 16, 2011.
- A Federal grant was approved, but not yet awarded, for the continuation of electronic ticketing. The value of the grant is approximately \$115,000 (80% Federal share/20% local share)
- Ridership increased 7.1% over the previous fiscal year
- The number of charters also increased by 7.1% over the previous fiscal year
- The number of vehicles transported was down by 1.3%. This was primarily due to the car ferry being in dry dock during the month of March.
- A long term capital plan was developed
- A corporate paper filing system was designed and implemented
- Discussions were conducted with the City of Portland regarding the terms of the District's lease with the City. No agreement has been reached yet.
- An RFP was issued by Maine Department of Transportation for the District's new vessel. This vessel is funded with the \$5.5 million award of American Reinvestment and Recovery Act. Blount Marine of Warren Rhode Island was low bidder and awarded the contract. The new vessel is expected to be delivered in the Spring of 2012. CBITD has owned several Blount built vessels over the years.
- Wi-Fi is now available in the District's Terminal and on three of the primary vessels. The intent of this project is to provide access to the Internet for:
  - Students during their commute to enhance their learning experience
  - Regular commuters during their commute to provide a virtual office capability as well as recreational access
  - Tourists in the Terminal and/or on the boat to guide them to where in the nearby community they can spend their time before their ferry leaves and conversely aid them with island destinations while under way on a ferry
  - Capability to electronically transmit critical data, such as passenger count, from a boat directly to the Terminal (The implementation of this is not within the scope of this project)
- The implementation of electronic ticketing was started. 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 using proprietary fund (enterprise fund) accounting that uses the same basis of accounting that the private-sector business enterprises use. 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, 2011 are as follows:

- The District's capital assets were \$4,961,380, a decrease of \$450,606.
- Total liabilities have decreased by \$300,677. Most of this decrease is due to the reduction in long-term liabilities.
- Overall, total liabilities and net assets decreased by 6.7% compared with 2010.

## **ANALYSIS OF THE FINANCIAL STATEMENTS**

As of March 31, 2011 total assets were \$5,704,065. Of this amount, \$4,961,380 consisted of capital assets net of accumulated depreciation.

As of March 31, 2011, total liabilities were \$1,077,373.

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. In comparison, as of March 31, 2010, net assets were \$4,733,740. Of this amount, \$5,261,986 was invested in capital assets, net of related debt and \$100,000 was restricted for future debt payment and \$(628,246) was unrestricted.

Operating revenues totaling \$4,531,887 (increase of 5.3%) consisted of:

- \$2,208,790 in Passenger revenues (increase of 2%)
- \$804,150 in Vehicle revenues (increase of 3.8%)
- \$535,824 in Freight revenues (increase of 6.6%)
- \$108,802 for the US Mail contract
- \$385,776 in Tours & Cruises passenger revenues (increase of 22.9%)
- \$421,785 in Charters/Catering revenues (increase of 14.5%)
- \$66,760 in miscellaneous revenues (increase of 12.7%)

Operating expenses totaling \$5,434,840 (increase of 3.5%) consisted of:

- \$2,738,894 in Personnel related expenses (increase of 3.2%)
- \$1,259,556 in Vessel expenses (decrease of 0.9%)
- \$383,909 in Operation expenses (increase of 9.1%)
- \$286,670 in Terminal expenses (increase of 7.1%)
- \$236,152 in Sales related expenses (increase of 31.3%)
- \$529,659 in Depreciation expense (increase of 1.3%)

A detailed listing of expenses as of March 31, 2011 can be found on Page 9 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 Holiday 1/1/1980	\$ 200,000	SL 15 yrs	-0-	\$ 200,000
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	\$ 1,010,393
Maquoit II 3/1/1995	\$1,822,292	SL 25 yrs	\$ 72,892	\$ 994,093
Bay Mist 4/17/1998	\$ 622,000	SL 15 yrs	\$ 41,467	\$ 393,934
Aucocisco III 6/2/2005	\$2,967,061	SL 25 yrs	\$118,682	\$ 296,705

### **Requests for Information**

This financial report is intended to provide an overview of the finances of 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,

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 295,221	\$ 163,963
Accounts receivable (net of allowance for uncollectible accounts)	12,592	13,434
Grants receivable	159,415	289,398
Inventory	118,545	95,282
Prepaid expenses	56,913	37,727
<b>TOTAL CURRENT ASSETS</b>	<b>642,686</b>	<b>599,804</b>
<b>NONCURRENT ASSETS</b>		
Capital assets:		
Buildings and equipment, net of accumulated depreciation	4,961,380	5,411,986
Restricted cash	100,000	100,000
	5,061,380	5,511,986
<b>TOTAL ASSETS</b>	<b>\$ 5,704,065</b>	<b>\$ 6,111,790</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Account payable	\$ 342,816	\$ 241,582
Accrued payroll and payroll taxes	73,120	25,569
Accrued compensated absences	58,732	55,699
Accrued pension	118,760	117,742
Accrued interest	1,113	5,875
Accrued health insurance	23,564	-
Other accrued liabilities	13,343	9,348
Line of credit	400,000	725,000
Charter deposits	25,700	27,300
Unearned revenue	20,225	19,935
Bonds payable, current portion	-	75,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,077,373</b>	<b>1,303,050</b>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of current portion	-	75,000
<b>TOTAL LIABILITIES</b>	<b>1,077,373</b>	<b>1,378,050</b>
<b>NET ASSETS</b>		
Invested in capital assets	4,961,380	5,261,986
Restricted net assets	100,000	100,000
Unrestricted net assets	(434,688)	(628,246)
<b>TOTAL NET ASSETS</b>	<b>4,626,692</b>	<b>4,733,740</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,704,065</b>	<b>\$ 6,111,790</b>

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>2011</u>	<u>2010</u>
OPERATING REVENUES		
Passenger fares	\$ 2,208,790	\$ 2,176,369
Vehicles	804,150	773,882
Freight	535,824	502,844
Mail contract	108,802	107,071
Tours and cruises	385,776	313,842
Charters	218,294	205,268
Catering	203,491	163,023
Miscellaneous	66,760	59,227
TOTAL OPERATING REVENUES	<u>4,531,887</u>	<u>4,301,526</u>
OPERATING EXPENSES	<u>5,434,840</u>	<u>5,249,222</u>
OPERATING LOSS	<u>(902,953)</u>	<u>(947,696)</u>
NONOPERATING REVENUES (EXPENSES):		
U.S. Department of Transportation, Federal Transit Administration grant	605,641	709,386
State of Maine grants	155,376	79,834
Interest income	404	305
Interest expense	(10,027)	(25,734)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>751,394</u>	<u>763,791</u>
LOSS BEFORE CAPITAL GRANT REVENUE	<u>(151,559)</u>	<u>(183,905)</u>
CAPITAL GRANT REVENUE:		
U.S. Department of Transportation, Federal Transit Administration grant	-	54,864
State of Maine grants	44,511	74,504
TOTAL CAPITAL GRANT REVENUE	<u>44,511</u>	<u>129,368</u>
DECREASE IN NET ASSETS	(107,048)	(54,537)
NET ASSETS - APRIL 1	<u>4,733,740</u>	<u>4,788,277</u>
NET ASSETS - MARCH 31	<u>\$ 4,626,692</u>	<u>\$ 4,733,740</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>2011</u>	<u>2010</u>
OPERATING EXPENSES		
Salaries and wages	\$ 2,086,321	\$ 2,014,726
Payroll taxes	153,712	150,427
Employee benefits	254,777	220,139
Pension plan	244,084	269,838
Repairs and maintenance	634,396	571,730
Fuel	529,467	599,989
Insurance	95,693	99,848
Telephone	9,552	12,579
Mail agent	10,200	9,900
Office expense	141,959	115,983
Postage	3,496	3,395
Travel	4,230	4,955
Injuries and damages	9,787	8,967
Professional fees	106,758	133,695
Dues and subscriptions	14,247	6,048
Uniforms	19,634	9,941
Training	437	503
Heat and utilities	58,126	57,127
Janitorial	53,910	57,036
Rent	30,204	25,977
Terminal	144,430	127,585
Advertising	87,666	69,258
Catering	148,486	110,664
Depreciation	529,443	522,663
Amortization	216	429
Miscellaneous	63,609	45,820
	<u>\$ 5,434,840</u>	<u>\$ 5,249,222</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,

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,531,419	\$ 4,296,511
Payments to employees	(2,659,733)	(2,689,912)
Payments to suppliers and vendors	(2,107,502)	(2,031,166)
Net cash provided (used) by operating activities	(235,816)	(424,567)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Federal maintenance grant	735,624	666,908
State subsidy grant	199,887	154,338
Net cash provided by noncapital financing activities	935,511	821,246
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	404	305
Net cash provided by investing activities	404	305
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(78,837)	(142,481)
Interest paid	(15,005)	(31,842)
Principal paid on long-term debt	(150,000)	(70,000)
Net increase in borrowings on line of credit	(325,000)	(125,000)
Net cash (used) by capital and related financing activities	(568,842)	(369,323)
<b>NET (DECREASE) IN CASH</b>	131,258	27,661
<b>CASH - APRIL 1, 2010</b>	163,963	136,302
<b>CASH - MARCH 31, 2011</b>	\$ 295,221	\$ 163,963
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (902,953)	\$ (947,696)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	529,443	522,663
Amortization expense	216	429
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	842	2,012
(Increase) decrease in prepaid expense	(19,186)	900
(Increase) decrease in inventory	(23,263)	-
Increase (decrease) in accounts payable	101,234	38,934
Increase (decrease) in accrued payroll and payroll taxes	47,551	(29,416)
Increase (decrease) in accrued compensated absences	3,033	5,063
Increase (decrease) in accrued pension	1,018	(12,067)
Increase (decrease) in accrued health insurance	23,564	-
Increase (decrease) in other accrued liabilities	3,995	1,638
Increase (decrease) in charter deposits	(1,600)	(4,000)
Increase (decrease) in unearned revenue	290	(3,027)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	\$ (235,816)	\$ (424,567)

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

## CASCO BAY ISLAND TRANSIT DISTRICT

### NOTES TO FINANCIAL STATEMENTS MARCH 31, 2011 AND 2010

#### 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, 2011 AND 2010

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, 2011 was \$58,732.

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, 2011 AND 2010

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, 2011, the District's deposits amounting to \$478,401 were comprised of \$250,000, which was insured by federal depository insurance and consequently was not exposed to custodial credit risk and \$228,401 that was in excess of federal depository insurance, and therefore, not insured or collateralized. In addition, the District had a petty cash/change fund balance of \$5,250 as of March 31, 2011.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 349,433
Savings accounts	<u>128,968</u>
	<u>\$ 478,401</u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011 AND 2010

NOTE 3 – CAPITAL ASSETS

The following is a summary of the changes in capital assets from March 31, 2011:

	Balance, 4/1/10	Additions	Disposals	Balance, 3/31/11
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	-	-	670,005
Equipment	808,208	28,903	-	837,111
Vessels	9,829,273	49,934	-	9,879,207
	<u>11,307,486</u>	<u>78,837</u>	<u>-</u>	<u>11,386,323</u>
Less: accumulated depreciation	(6,007,931)	(529,443)	-	(6,537,374)
	<u>5,299,555</u>	<u>(450,606)</u>	<u>-</u>	<u>4,848,949</u>
Net capital assets	<u>\$ 5,411,986</u>	<u>\$ (450,606)</u>	<u>\$ -</u>	<u>\$ 4,961,380</u>

NOTE 4 – LINE OF CREDIT

The District has established an unsecured line of credit with TD Bank Inc. of \$1,500,000 for current operating expenses. The interest rate was 3.75% as of March 31, 2011 and 2010 and had a balance outstanding of \$400,000 as of March 31, 2011 and \$725,000 as of March 31, 2010.

NOTE 5 – LONG-TERM DEBT

A summary of long-term debt is as follows:

	Balance, 4/1/10	Additions	Deletions	Balance, 3/31/11	Current Portion
Bonds payable	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ -</u>	<u>\$ -</u>

The transit district paid off all long-term debt obligations in fiscal year 2011.

## CASCO BAY ISLAND TRANSIT DISTRICT

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

#### NOTE 6 – 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, 2011 and 2010 were \$244,084 and \$269,838, respectively.

#### NOTE 7 – 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 June 1, 1988 and the lease term is for thirty years. The amount of future minimum lease payments had been agreed upon through December 31, 2006. 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 31<sup>st</sup>. 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.

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011 AND 2010

NOTE 7 – OPERATING LEASES (CONTINUED)

The total rent and minor repairs expense for the year ended March 31, 2011 was \$67,116.

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

2012	\$ 16,000
2013	16,000
2014	16,000
2015	16,000
2016-2020	<u>64,000</u>
	<u>\$ 128,000</u>

NOTE 8 – 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, 2011**

**NOTE 9 – RECONCILIATIONS OF NET ASSETS**

	Unrestricted net assets	Restricted	Invested in capital assets	Total
Operating Revenues	\$ 4,531,887	\$ -	\$ -	\$ 4,531,887
Operating Expenses	(5,434,840)	-	-	(5,434,840)
Nonoperating revenues (expenses)	751,394	-	-	751,394
Capital Grant Revenues	44,511	-	-	44,511
Depreciation expense	529,443	-	(529,443)	-
Change in fixed assets account not in expenses	(78,837)	-	78,837	-
Change in long-term debt account not in expense	(150,000)	-	150,000	-
Increase(Decrease) in Net Assets	193,558	-	(300,606)	(107,048)
Net Assets - April 1, 2010	(628,246)	100,000	5,261,986	4,733,740
Net Assets - March 31, 2011	<u>\$ (434,688)</u>	<u>\$ 100,000</u>	<u>\$ 4,961,380</u>	<u>\$ 4,626,692</u>

Summary of Increase (Decrease) in Net Assets:

Provision for deficit reduction account	\$ 200,000
(Loss) above provision for deficit reduction account for unrestricted funds	<u>(6,442)</u>
Increase(Decrease) in Net Assets	<u>\$ 193,558</u>

**NOTE 10 – RESTATEMENT OF NET ASSETS**

Fund balance was restated due to Casco Bay Island Transit District decided in fiscal year 2011 to start recording inventory and made it retroactive to fiscal year 2010.

	<u>Net Assets</u>
NET ASSETS - MARCH 31, 2010	\$ 4,638,458
RESTATEMENT	<u>95,282</u>
NET ASSETS - APRIL 1, 2010	<u>\$ 4,733,740</u>

CASCO BAY ISLAND TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2011

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-95-X006	\$ 20,872
Federal Transit Formula Grants	20.507	ME-95-X008	23,123
Federal Transit Formula Grants	20.507	ME-90-X181	319,488
			<u>363,483</u>
Formula Grants for Other than Urbanized Areas	20.509	ME-18-X043	66,025
Formula Grants for Other than Urbanized Areas	20.509	ME-18-X045	199,256
			<u>265,281</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 628,764</u></u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2011

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 17, 2011

Board of Directors  
Casco Bay Island Transit District  
Portland, Maine

We have audited the financial statements of the Casco Bay Island Transit District as of and for the year ended March 31, 2011, which collectively comprise the Casco Bay Island Transit District's basic financial statements and have issued our report thereon dated May 17, 2011. 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 opinions on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the Casco Bay Island Transit District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be 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.

## 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 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



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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 17, 2011

Board of Directors  
Casco Bay Island Transit District  
Portland, Maine

Compliance

We have audited Casco Bay Island Transit District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Casco Bay Island Transit District's major federal programs for the year ended March 31, 2011. 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, 2011.

Internal Control over Compliance

Management of Casco Bay Island Transit District is responsible for establishing and maintaining effective internal control over 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 to determine the 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 material noncompliance 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, 2011

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 17, 2011

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, 2011 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.

*RHR Smith & Company*

Certified Public Accountants

3 Old Orchard Road, Buxton, Maine 04093  
Tel: (800) 300-7708 (207) 929-4606 Fax: (207) 929-4609

CASCO BAY ISLAND TRANSIT DISTRICT

SCHEDULE OF AGREEMENT OPERATIONS  
FOR THE YEAR ENDED MARCH 31, 2011

PIN #	ME-18-X042		ME-18-X045		ME-18-X042		ME-18-X040	
	Cost	Interim	Cost	Interim	Cost	Final	Cost	Interim
16086 (1)	16246	17195(1)	17462	17950	16244	13293		
Agreement total:	\$238,077	\$238,077	\$45,052	\$45,052	\$183,275	\$10,000		
Agreement Term:	7/1/09-6/30/11	7/1/10-6/30/12	7/1/09-6/30/10	7/1/10-6/30/11	7/1/08-6/30/10	5/1/08-6/30/11		
Basis of Settlement:	Cost	Cost	Cost	Cost	Cost	Cost	Cost	Cost
Status:	Interim	Interim	Final	Interim	Final	Interim	Interim	Totals
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUES:								
Grants and contracts - Federal	-	66,025	-	-	-	-	-	-
Grants and contracts - State	131,712	-	-	45,052	-	-	-	176,764
Passenger fares	-	170,884	-	348,969	-	-	-	600,980
Other Federal revenue	-	-	-	-	-	-	-	-
Miscellaneous	-	61,648	-	72,765	-	-	-	283,235
Total revenues	131,712	298,557	429,205	466,786	-	-	-	1,326,260
EXPENDITURES:								
Salaries and benefits	-	385,207	338,081	592,123	-	-	-	1,315,411
Professional fees	-	10,668	13,557	-	-	-	-	24,225
Travel/training	-	426	68	-	-	-	-	494
Advertising	-	-	-	-	-	-	-	-
Supplies	-	18,152	13,283	-	-	-	-	31,435
Vehicle expenses	131,712	69,575	70,705	146,171	-	-	-	418,163
Other - insurance	-	16,794	8,396	26,296	-	-	-	51,486
Utilities	-	7,248	10,746	-	-	-	-	17,994
Miscellaneous	-	38,965	43,972	74,099	-	-	-	157,036
Total expenditures	131,712	547,035	498,808	838,689	-	-	-	2,016,244
NET ACTIVITIES								
	-	(248,478)	(69,603)	(371,903)	-	-	-	(689,984)
OPERATING NET ASSETS -								
APRIL 1	-	(196,553)	(493)	-	-	-	-	(197,046)
OPERATING NET ASSETS -								
MARCH 31	\$	(445,031)	(69,603)	(371,903)	\$	-	\$	(887,030)



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ACCOUNTANTS' COMPILATION REPORT  
ON AGREEMENT SETTLEMENT FORMS

May 17, 2011

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, 2011 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

AGREEMENT SETTLEMENT FORM (ASF)

Community Agency:	Casco Bay Island Transit District
Fiscal Year:	March 31, 2011
Contract Number:	ME-18-X042
Contract Amount:	\$183,275

Total Operating Costs	\$ 396,119
Less:	
Fares	<u>(212,844)</u>
Net Operating Deficit	<u>\$ 183,275</u>

Surplus/(Deficit)	<u>\$ (183,275)</u>
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Federal Participating Share

1. Amount of Non-Federal Funds Contributed:			
State	\$	-	
Local		-	
Total Non-Fed		<u>-</u>	-
2. 50% of the net Project Costs:			
Federal Share @ 100%			183,275
3. Operating Deficit After Adding Local Funds But Before			
Operating Costs		396,119	
Less:			
Fares		212,844	
State		-	
Local		-	
Deficit Before UMTA		<u>-</u>	183,275
4. Maximum Amount of Grant			
Federal Share Paid			183,275
Participating Share (Steps 1-4)			-
Federal Over (Under) Paid			<u>\$ -</u>

State Participating Share

Maximum Authorized Amount			
State Share	\$	-	
State Share Paid		-	
State Over (Under) Paid		<u>\$ -</u>	

AGREEMENT SETTLEMENT FORM (ASF)

Community Agency: Casco Bay Island Transit District  
 Fiscal Year: March 31, 2011  
 Contract Number: 17462  
 Contract Amount: \$45,052

Total Operating Costs		<u>\$ 455,445</u>
Less:		
Fares		<u>(409,900)</u>
Net Operating Deficit		<u>\$ 45,545</u>
Surplus/(Deficit)		<u>\$ (45,545)</u>

Federal Participating Share

1. Amount of Non-Federal Funds Contributed:			
State	\$ 45,052		
Local	-		
Total Non-Fed		<u>45,052</u>	
2. 50% of the net Project Costs:			
Federal Share @ 50%			22,773
3. Operating Deficit After Adding Local Funds But Before			
Operating Costs	455,445		
Less:			
Fares	409,900		
State	45,052		
Local	-		
Deficit Before UMTA		<u>493</u>	
4. Maximum Amount of Grant			
Federal Share Paid			-
Participating Share (Steps 1-4)			-
Federal Over (Under) Paid			<u>\$ -</u>

State Participating Share

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