

State Compliance Audit

Casco Bay Island Transit District

March 31, 2010



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CASCO BAY ISLAND TRANSIT DISTRICT

MARCH 31, 2010

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INDEPENDENT AUDITORS' REPORT

May 14, 2010

Board of Directors
Casco Bay Island Transit District
Portland, Maine

We have audited the accompanying financial statements of the Casco Bay Island Transit District as of and for the year ended March 31, 2010. These financial statements are the responsibility of the 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 financial position of Casco Bay Island Transit District, as of March 31, 2010, and the changes in financial position and its cash flows 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 14, 2010 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. 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiring management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Casco Bay Island Transit District basic financial statements. 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 basic financial statements of the Casco Bay Island Transit District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RHR Smith & Company

Certified Public Accountants

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2010**

(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, 2010.

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 years of operating in a deficit, the District's financial performance was the strongest it has been since fiscal year 2004. This was primarily due to increased financial oversight and management. As a result, the District's Operating Retained Earnings (Net Assets) increased by \$255,645 after many years of erosion. That erosion had cost the District a considerable amount in the magnitude of debt required for the operation. 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 was a reduction in the cost of debt. It will take several years of similar performance to get Net Assets in the positive.

There are several indirectly related items worth noting:

- A new General Manager, with a business background in the private sector, was hired and started in January.
- During this fiscal year, a grant was awarded to build a new ferry for the District for \$5.5 million. This award was nearly 10% of a \$60 million competitive grant awarded nationwide. This award will be fully funded and will be managed by the Maine Department of Transportation with an expected start date of early summer 2011.
- On March 30, 2010, as a result of a petition filed by some island residents, the Maine Public Utilities Commission (PUC) unanimously decided not to open a formal investigation into the 2009 rate increase. The decision includes a few items that the District needs to address the next time a rate change is proposed for review by the PUC. Unfortunately, this was a long and drawn out process that cost the District a considerable amount of time and money.
- The District and the Unions continued their negotiations. Since the parties were not able to reach an agreement during negotiations, and pursuant to Maine public law, the parties went into mediation. In mediation, the District and the Unions again were not able to reach a settlement. (It was then agreed to by) Both parties then agreed to bypass fact-finding, the next step in the agreed-upon process in the collective bargaining agreement, and go directly to arbitration. This too has been a long drawn out process that has cost the District a considerable amount of time and money.

BASIC FINANCIAL STATEMENTS

Our basic financial statements are prepared using propriety 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 and the non-operating revenue and the 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, 2010 are as follows:

- The District's capital assets were \$5,411,986 as of March 31, 2010, a decrease of \$380,182.
- Total liabilities have decreased by \$203,554. Most of this decrease is due to the reduction in long term liabilities.
- Overall, total liabilities and net assets decreased by 4% compared with 2009.

ANALYSIS OF THE FINANCIAL STATEMENTS

As of March 31, 2010 total assets were \$6,016,508. Of this amount, \$5,411,986 consisted of capital assets net of accumulated depreciation.

As of March 31, 2010, total liabilities were \$1,378,050. Of this amount, \$75,000 is due and payable after one year.

As of March 31, 2010, net assets were \$4,638,458. 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 \$(723,528) was unrestricted. In comparison, as of March 31, 2009, net assets were \$4,692,995. Of this amount, \$5,572,168 was invested in capital assets, net of related debt and \$100,000 was restricted for future debt payment and \$(979,173) was unrestricted.

Operating revenues totaling \$4,301,526 consisted of \$2,176,369 in passenger revenues (increase of 2% over 2009), \$773,882 in vehicle revenues (increase of 3.8% over 2009), \$502,844 in freight revenues (increase of 2.7% over 2009), \$107,071 for the US Mail contract, \$313,842 in tour passenger revenues, \$368,291 in charters/catering revenues and \$59,227 in miscellaneous revenues.

Passenger revenues increased 2% or \$43,040, vehicle revenues increased by 3.8% or \$28,176 and freight increased by 2.7% or \$13,081. Tour revenues increased 18.7% or \$49,474 from 2009.

Operating expenses totaling \$5,249,222 consisted of \$2,655,130 in Personnel related expenses, \$1,271,567 in Vessel expenses (26% decrease in fuel expense over 2009), \$351,786 in Operation expenses, \$267,725 in Terminal expenses, \$179,922 in Sales related expenses and \$523,092 in depreciation expense.

A detailed listing of expenses as of March 31, 2010 can be found on Page 11 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	\$ 786,460
Maquoit II 3/1/1995	\$1,822,292	SL 25 yrs	\$ 72,892	\$ 921,201
Bay Mist 4/17/1998	\$ 622,000	SL 15 yrs	\$ 41,467	\$ 352,467
Aucocisco III 6/2/2005	\$2,967,061	SL 25 yrs	\$118,682	\$ 178,023

Requests for Information

This financial report is intended to provide an overview of the finances of Casco Bay Island Transit District. (for those who have an interest in the organization.) Questions concerning any information contained in this report may be directed to us.

Respectfully submitted,

Henry Berg
General Manager

Barbara Sawtelle
Finance Director

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENTS OF NET ASSETS
MARCH 31,

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 163,963	\$ 136,302
Accounts receivable (net of allowance for uncollectible accounts)	13,434	15,446
Grants receivable	289,398	192,056
Prepaid expenses	<u>37,727</u>	<u>38,627</u>
TOTAL CURRENT ASSETS	<u>504,522</u>	<u>382,431</u>
NONCURRENT ASSETS		
Capital assets:		
Buildings and equipment, net of accumulated depreciation	5,411,986	5,792,168
Restricted cash	<u>100,000</u>	<u>100,000</u>
	<u>5,511,986</u>	<u>5,892,168</u>
TOTAL ASSETS	<u>\$ 6,016,508</u>	<u>\$ 6,274,599</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Account payable	\$ 241,582	\$ 202,648
Accrued payroll and payroll taxes	25,569	54,985
Accrued compensated absences	55,699	50,636
Accrued pension	117,742	129,809
Accrued interest	5,875	11,554
Other accrued liabilities	9,348	7,710
Line of credit	725,000	850,000
Charter deposits	27,300	31,300
Unearned revenue	19,935	22,962
Bonds payable, current portion	<u>75,000</u>	<u>70,000</u>
TOTAL CURRENT LIABILITIES	<u>1,303,050</u>	<u>1,431,604</u>
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	<u>75,000</u>	<u>150,000</u>
TOTAL LIABILITIES	<u>1,378,050</u>	<u>1,581,604</u>
NET ASSETS		
Invested in capital assets	5,261,986	5,572,168
Restricted net assets	100,000	100,000
Unrestricted net assets	<u>(723,528)</u>	<u>(979,173)</u>
TOTAL NET ASSETS	<u>4,638,458</u>	<u>4,692,995</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,016,508</u>	<u>\$ 6,274,599</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>2010</u>	<u>2009</u>
OPERATING REVENUES		
Passenger fares	\$ 2,176,369	\$ 2,133,329
Vehicles	773,882	745,706
Freight	502,844	489,763
Mail contract	107,071	105,623
Tours and cruises	313,842	264,368
Charters	205,268	206,589
Catering	163,023	161,253
Miscellaneous	59,227	61,077
TOTAL OPERATING REVENUES	<u>4,301,526</u>	<u>4,167,708</u>
OPERATING EXPENSES	<u>5,249,222</u>	<u>5,499,828</u>
OPERATING LOSS	<u>(947,696)</u>	<u>(1,332,120)</u>
NONOPERATING REVENUES (EXPENSES):		
U.S. Department of Transportation, Federal Transit Administration grant	709,386	655,115
State of Maine grants	79,834	241,766
Interest income	305	2,421
Interest expense	(25,734)	(32,936)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>763,791</u>	<u>866,366</u>
LOSS BEFORE CAPITAL GRANT REVENUE	<u>(183,905)</u>	<u>(465,754)</u>
CAPITAL GRANT REVENUE:		
U.S. Department of Transportation, Federal Transit Administration grant	54,864	71,887
State of Maine grants	74,504	113,155
TOTAL CAPITAL GRANT REVENUE	<u>129,368</u>	<u>185,042</u>
DECREASE IN NET ASSETS	(54,537)	(280,712)
NET ASSETS - APRIL 1	<u>4,692,995</u>	<u>4,973,707</u>
NET ASSETS - MARCH 31	<u>\$ 4,638,458</u>	<u>\$ 4,692,995</u>

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

CASCO BAY ISLAND TRANSIT DISTRICT

STATEMENTS OF EXPENSES
FOR THE YEARS ENDED MARCH 31,

	<u>2010</u>	<u>2009</u>
OPERATING EXPENSES		
Salaries and wages	\$ 2,014,726	\$ 2,037,206
Payroll taxes	150,427	154,259
Employee benefits	220,139	234,947
Pension plan	269,838	232,009
Repairs and maintenance	571,730	618,779
Fuel	599,989	813,984
Insurance	99,848	109,123
Telephone	12,579	13,137
Mail agent	9,900	10,200
Office expense	115,983	136,281
Postage	3,395	3,856
Travel	4,955	6,071
Injuries and damages	8,967	5,477
Professional fees	133,695	101,743
Dues and subscriptions	6,048	4,013
Uniforms	9,941	14,209
Training	503	5,005
Heat and utilities	57,127	65,477
Janitorial	57,036	54,238
Rent	25,977	19,652
Terminal	127,585	108,009
Advertising	69,258	67,746
Catering	110,664	113,579
Depreciation	522,663	521,899
Amortization	429	429
Miscellaneous	45,820	48,500
	<u>\$ 5,249,222</u>	<u>\$ 5,499,828</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,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,296,511	\$ 4,167,253
Payments to employees	(2,689,912)	(2,665,583)
Payments to suppliers and vendors	(2,031,166)	(2,284,291)
Net cash provided (used) by operating activities	(424,567)	(782,621)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Federal maintenance grant	666,908	704,977
State subsidy grant	154,338	354,921
Net cash provided by noncapital financing activities	821,246	1,059,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	305	2,421
Net cash provided by investing activities	305	2,421
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property, plant and equipment	(142,481)	(259,185)
Interest paid	(31,842)	(33,611)
Principal paid on long-term debt	(70,000)	(70,000)
Net increase in borrowings on line of credit	(125,000)	50,000
Net cash (used) by capital and related financing activities	(369,323)	(312,796)
NET (DECREASE) IN CASH	27,661	(33,098)
CASH - APRIL 1, 2009	136,302	169,400
CASH - MARCH 31, 2010	\$ 163,963	\$ 136,302
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (947,696)	\$ (1,332,120)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	522,663	521,899
Amortization expense	429	429
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	2,012	7,444
(Increase) decrease in prepaid expense	900	3,963
Increase (decrease) in accounts payable	38,934	30,825
Increase (decrease) in accrued payroll and payroll taxes	(29,416)	(3,407)
Increase (decrease) in accrued compensated absences	5,063	(26,225)
Increase (decrease) in accrued pension	(12,067)	19,397
Increase (decrease) in other accrued liabilities	1,638	3,073
Increase (decrease) in charter deposits	(4,000)	(2,575)
Increase (decrease) in unearned revenue	(3,027)	(5,324)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (424,567)	\$ (782,621)

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

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS MARCH 31, 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, 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.

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, 2010 was \$55,699.

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, 2010

NOTE 2 – CASH AND INVESTMENTS

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, 2010, the District's deposits amounting to \$266,924 were comprised of \$248,533, which was insured by federal depository insurance and consequently was not exposed to custodial credit risk and \$18,391 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, 2010.

NOTE 3 – CAPITAL ASSETS

The following is a summary of the changes in capital assets from March 31, 2010:

	Balance, 4/1/09	Additions	Disposals	Balance, 3/31/10
Non-depreciated assets:				
Construction in progress	\$ 36,489	\$ 75,942	\$ -	\$ 112,431
	<u>36,489</u>	<u>75,942</u>	<u>-</u>	<u>112,431</u>
Depreciated assets:				
Leasehold improvements	670,005	-	-	670,005
Equipment	741,669	66,539	-	808,208
Vessels	9,829,273	-	-	9,829,273
	<u>11,240,947</u>	<u>66,539</u>	<u>-</u>	<u>11,307,486</u>
Less: accumulated depreciation	<u>(5,485,268)</u>	<u>(522,663)</u>	<u>-</u>	<u>(6,007,931)</u>
	<u>5,755,679</u>	<u>(456,124)</u>	<u>-</u>	<u>5,299,555</u>
Net capital assets	<u>\$ 5,792,168</u>	<u>\$ (380,182)</u>	<u>\$ -</u>	<u>\$ 5,411,986</u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010

NOTE 4 – LINE OF CREDIT

The District has established an unsecured line of credit with Gorham Savings Bank in 2010 and TD Bank, Inc. in 2009 of \$1,500,000 for current operating expenses. The interest rate was 1.97% as of March 31, 2010 and 3.75% 2009 and had a balance outstanding of \$725,000 as of March 31, 2010 and \$850,000 as of March 31, 2009.

NOTE 5 – LONG-TERM DEBT

A summary of long-term debt is as follows:

	Balance, 4/1/09	Additions	Deletions	Balance, 3/31/10	Current Portion
Bonds payable	\$ 220,000	\$ -	\$ (70,000)	\$ 150,000	\$ 75,000

The following is a summary of bonds outstanding as of March 31, 2009:

\$350,000, 2004 General Obligation Bond payable, interest rate of 4.4%, annual principal payments of \$20,000 to \$75,000. Maturity in November of 2011.	<u>\$ 150,000</u>
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The annual principal and interest requirements to amortize the bonds on the Aucocisco III are as follows:

	Principal	Interest	Total Debt Service
2011	\$ 75,000	\$ 6,600	\$ 81,600
2012	75,000	3,300	78,300
2013	-	-	-
2014	-	-	-
2015	-	-	-
	<u>\$ 150,000</u>	<u>\$ 9,900</u>	<u>\$ 159,900</u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS MARCH 31, 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. 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, 2010 and 2009 were \$269,838 and \$232,009, 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 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, 1997. 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, 2010

NOTE 7 – OPERATING LEASES (CONTINUED)

The total rent and minor repairs expense for the year ended March 31, 2009 was \$67,245.

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

2011	\$ 16,000
2012	16,000
2013	16,000
2014	16,000
2015-2019	<u>80,000</u>
	<u>\$ 144,000</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, 2010

NOTE 9 – RECONCILIATIONS OF NET ASSETS

	Unrestricted net assets	Restricted	Invested in capital assets	Total
Operating Revenues	\$ 4,301,526	\$ -	\$ -	\$ 4,301,526
Operating Expenses	(5,249,222)	-	-	(5,249,222)
Nonoperating revenues (expenses)	763,791	-	-	763,791
Capital Grant Revenues	129,368	-	-	129,368
Depreciation expense	522,663	-	(522,663)	-
Change in fixed assets account not shown in expenses	(142,481)	-	142,481	-
Change in long-term debt account not shown in expenses	(70,000)	-	70,000	-
Increase(Decrease) in Net Assets	255,645	-	(310,182)	(54,537)
Net Assets - April 1, 2009	(979,173)	100,000	5,572,168	4,692,995
Net Assets - March 31, 2010	\$ (723,528)	\$ 100,000	\$ 5,261,986	\$ 4,638,458

Summary of Increase (Decrease) in Net Assets:

Provision for deficit reduction account	\$ 200,000
Profit above provision for deficit reduction account for unrestricted funds	55,645
Increase(Decrease) in Net Assets	<u>\$ 255,645</u>

CASCO BAY ISLAND TRANSIT DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED MARCH 31, 2010

Pass-through Grantor/ Program Title	CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Pass Through Federal Transit Administration:			
Maine Department of Transportation			
Federal Transit Formula Grants	20.507	ME-90-X175	\$ 400,102
Federal Transit Formula Grants	20.507	ME-90-x006	139,128
Federal Transit Formula Grants	20.507	ME-90-x008	37,236
Federal Transit Formula Grants	20.507	ME-90-X163	17,628
			<u>594,094</u>
Formula Grants for Other than Urbanized Areas	20.509	ME-18-X043	169,504
			<u>169,504</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 763,598</u></u>

CASCO BAY ISLAND TRANSIT DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2010

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:

Federal Transit Formula Grants

CDFA #20.507



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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 14, 2010

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, 2010, and have issued our report thereon dated May 14, 2010. 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, 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 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or 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*.

We noted certain matters that we reported to management of Casco Bay Island Transit District in a separate letter dated May 14, 2010.

This report is intended solely for the information and use of management, Board of Directors, 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
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

May 14, 2010

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 U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2010. 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 on 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 requirements referred to above that are applicable to its major federal programs for the year ended March 31, 2010. The results of our auditing procedures disclosed no other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

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 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 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 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, 2010

Summary of Auditor's Results

- 1) We have issued an unqualified report dated May 14, 2010 on the financial statements of the District which can be found on pages one and two.
- 2) Our statement of significant deficiencies and material weaknesses can be found on pages 20 - 21 as they pertain to our audit of the financial statements for the District.
- 3) Our statement of non-compliance can be found on pages 20 - 21 as they pertain to our audit of the financial statements for the District. Our audit disclosed no instances of non-compliance in regards to the federal programs tested for March 31, 2010.
- 4) Our statement of significant deficiencies and material weakness over major programs can be found on pages 22 - 23 as they pertain to our audit of the financial statements of the District. Our audit disclosed no significant deficiencies or material weaknesses in regard to the major federal programs tested for March 31, 2010.
- 5) We have issued an unqualified report dated May 14, 2010 on compliance for major programs for the District on pages 22 - 23.
- 6) Our statements disclosed no audit findings.
- 7) The following major programs were audited as of March 31, 2010:
 - 1) Federal Transit Formula Grants CDFA #20.507
- 8) The dollar threshold used to determine Type A and Type B programs as defined by OMB Circular A-133 is \$300,000.
- 9) The auditee did qualify as low risk as defined by OMB Circular A-133.
- 10) There were no findings related to the financial statements of the District with GAGAS.
- 11) There were no findings and questioned costs for federal awards to report for the District for the year ended March 31, 2010.



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

May 14, 2010

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, 2010 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

CASCO BAY ISLAND TRANSIT DISTRICT
SCHEDULE OF AGREEMENT OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2010

PIN #	ME-18-X042		ME-18-X042		ME-18-X042		ME-18-X040		Totals
	16086 (1)	17462	13211	16244 (1)	13293	16186	16186	16186	
Agreement total:	\$500,000	\$45,052	\$250,000	\$183,275	\$10,000	\$44,412	\$44,412	\$44,412	
Agreement Term:	1/1/09-3/30/12	7/1/09-6/30/11	3/1/07-6/30/09	7/1/08-6/30/10	5/1/08-6/30/11	7/1/08-6/30/09	7/1/08-6/30/09	7/1/08-6/30/09	
Basis of Settlement:	Cost	Cost	Cost	Cost	Cost	Cost	Cost	Cost	
Status:	Interim	Interim	Final	Interim	Interim	Final	Interim	Final	
REVENUES:									
Grants and contracts - Federal	\$ -	\$ 169,504	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169,504	
Grants and contracts - State	109,287	-	45,052	-	-	-	-	154,339	
Passenger fares	-	262,023	409,900	-	-	-	-	671,923	
Other Federal revenue	-	-	-	-	-	-	-	-	
Miscellaneous	-	136,201	-	-	-	-	-	136,201	
Total revenues	109,287	567,728	454,952	-	-	-	-	1,131,967	
EXPENDITURES:									
Salaries and benefits	-	520,599	-	-	-	-	-	520,599	
Professional fees	-	23,174	-	-	-	-	-	23,174	
Travel/training	-	1,102	-	-	-	-	-	1,102	
Advertising	-	11,824	-	-	-	-	-	11,824	
Supplies	-	18,981	-	-	-	-	-	18,981	
Vehicle expenses	109,287	107,290	-	-	-	-	-	216,577	
Other - insurance	-	17,590	-	-	-	-	-	17,590	
Utilities	-	14,127	-	-	-	-	-	14,127	
Miscellaneous	-	49,594	455,445	-	-	-	-	505,039	
Total expenditures	109,287	764,281	455,445	-	-	-	-	1,329,013	
NET ACTIVITIES	-	(196,553)	(493)	-	-	-	-	(197,046)	
OPERATING NET ASSETS -									
APRIL 1	-	-	-	-	-	-	-	-	
OPERATING NET ASSETS -									
MARCH 31	\$ -	\$ (196,553)	\$ (493)	\$ -	\$ -	\$ -	\$ -	\$ (197,046)	



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ACCOUNTANTS' COMPILATION REPORT
ON AGREEMENT SETTLEMENT FORMS

May 14, 2010

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, 2010 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 End: March 31, 2010
 Contract Number: PIN #13211
 Contract Amount: \$250,000
 Contract Period: 3/1/07-6/30/09

	Operating	Admin	Capital	Total
Gross Expenditures	\$ -	\$ -	\$ 250,000	\$ 250,000
Less:				
Contra-Expenditures	\$ -	\$ -	\$ -	\$ -
Operating Revenue	\$ -	\$ -	\$ -	\$ -
Excess Unrestricted Fed	\$ -	\$ -	\$ -	\$ -
Total Deductions	\$ -	\$ -	\$ -	\$ -
Net Expenditures/Deficit	\$ -	\$ -	\$ 250,000	\$ 250,000
<u>Federal Share</u>				
Maximum %	0%	0%	0%	
Amount Paid	\$ -	\$ -	\$ -	\$ -
Maximum Amount	\$ -	\$ -	\$ -	\$ -
Over (Under) Maximum	\$ -	\$ -	\$ -	\$ -
<u>State Share</u>				
Maximum %	0%	0%	100%	
Amount Paid	\$ -	\$ -	\$ 250,000	\$ 250,000
Maximum Amount	\$ -	\$ -	\$ 250,000	\$ 250,000
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, 2010
 Contract Number:
 Contract Amount: \$44,412

Total Operating Costs		\$ 586,216
Less:		
Fares		(74,208)
Net Operating Deficit		\$ 512,008
Surplus/(Deficit)		\$ (512,008)

Federal Participating Share

1. Amount of Non-Federal Funds Contributed:		
State	\$ 44,412	
Local	-	
Total Non-Fed	-	44,412
2. 50% of the net Project Costs:		
Federal Share @ 50%		256,004
3. Operating Deficit After Adding Local Funds But Before		
Operating Costs	586,216	
Less:		
Fares	74,208	
State	44,412	
Local	-	
Deficit Before UMTA	-	467,596
4. Maximum Amount of Grant		
Federal Share Paid		-
Participating Share (Steps 1-4)		256,004
Federal Over (Under) Paid		\$ (256,004)

State Participating Share

Maximum Authorized Amount	
State Share	\$ 44,412
State Share Paid	44,412
State Over (Under) Paid	\$ -