

**Cape Fear Public Transportation Authority
A Component Unit of the City of Wilmington**

Financial and Compliance Reports
Year Ended June 30, 2011

Contents

Financial Section	
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 7
Basic Financial Statements:	
Statement of net assets	9
Statement of revenue, expenses and changes in fund net assets	10
Statement of cash flows	11 - 12
Notes to basic financial statements	13 - 22
Supplementary Financial Information:	
Schedule of revenue and expenditures, annual budget and actual, non-GAAP, modified accrual basis, Operating Fund	23 - 24
Schedule of revenue and expenditures, annual budget and actual, non-GAAP, modified accrual basis, Capital Project Fund	25
Internal Control and Compliance Section	
Independent Auditor's 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	27 - 28
Compliance With Requirements That Could Have a Direct and Material Effect on Its Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Audit Implementation Act	29 - 30
Compliance With Requirements That Could Have a Direct and Material Effect on Its Major State Program and on Internal Control Over Compliance in Accordance With Applicable Sections of OMB Circular A-133 and the State Audit Implementation Act	31 - 32
Schedule of Findings and Questioned Costs	33 - 35
Corrective Action Plan	36
Summary Schedule of Prior Audit Findings	37
Schedule of Expenditures of Federal and State Awards	38
Notes to the Schedule of Expenditures of Federal and State Awards	39

FINANCIAL SECTION

- Report of Independent Certified Public Accountants
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to Basic Financial Statements
- Supplementary Financial Information

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Independent Auditor's Report

Board of Directors
Cape Fear Public Transportation Authority
Wilmington, North Carolina

We have audited the accompanying basic financial statements of Cape Fear Public Transportation Authority, a component unit of City of Wilmington, North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of Cape Fear Public Transportation Authority's management. Our responsibility is to express an 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Cape Fear Public Transportation Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Public Transportation Authority as of June 30, 2011, and the changes in its 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 November 30, 2011 on our consideration of Cape Fear Public Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Cape Fear Public Transportation Authority. The accompanying supplementary financial information listed in the table of contents, as well as the accompanying schedule of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements of Cape Fear Public Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Wilmington, North Carolina
November 30, 2011

Management's Discussion and Analysis

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Cape Fear Public Transportation Authority

Management's Discussion and Analysis (Unaudited) June 30, 2011

As management of Cape Fear Public Transportation Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$12,100,509 (net assets).
- The Authority's total net assets increased by \$3,111,116 during the fiscal year.
- The Authority operated within its budget.
- The Authority had an operating loss of \$(6,234,774).
- Capital assets, including beginning construction in process, completed and placed in service during the fiscal year was \$6,586,723.
- The Authority had no long-term debt outstanding as of June 30, 2011.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction Cape Fear Public Transportation Authority's basic financial statements. The financial statements and schedules of the Authority consist of three components. They are as follows:

- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Financial Statements

The Basic Financial Statements are prepared using the accrual basis of accounting. They consist of three statements, as required for entities engaged only in business-type activities.

The first statement is the statement of net assets. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Authority's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the statement of revenue, expenses, and changes in fund net assets. This statement is used in evaluating whether the Authority has recovered all of its costs through revenues. Its information is used in determining credit worthiness.

The final required statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, investing, capital and related financing and noncapital financing activities. Based on this data, the user can determine the sources of cash, the uses of cash, and the change in cash.

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements. After the Notes, supplementary financial information is provided to show additional details about the Authority's budgetary information.

Cape Fear Public Transportation Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Financial Analysis

Fiscal year 2010–2011 saw the Authority complete the construction of the new transfer station and administrative office on Cando Street. A discussion of the year's major financial developments follows.

Net assets may serve over time as one useful indicator of a government's fiscal health. Net assets invested in capital assets totaled \$11,824,956 which comprises vehicles, equipment, buildings, other improvements, construction in progress, and land. This is the main concentration of the Authority's net assets as of June 30, 2011 and reflects the increase related to the construction of the new transfer station and administrative offices which were funded through federal State and local capital contributions during the fiscal year. Unrestricted net assets have no restrictions on their use.

Cape Fear Public Transportation Authority Condensed Statement of Net Assets

Figure 1

	<u>2011</u>	<u>2010</u>
Current assets	\$ 951,855	\$ 1,382,548
Capital assets, net	<u>11,824,956</u>	-
Total assets	<u>12,776,811</u>	-
		-
Current liabilities	<u>676,302</u>	864,205
Net assets:		
Invested in capital assets	11,824,956	8,471,050
Unrestricted (deficit)	<u>275,553</u>	518,343
Total net assets	<u>\$ 12,100,509</u>	<u>\$ 8,989,393</u>

A comparison of the statement of net assets to the prior year shows an increase in net assets by \$3,111,116 resulting primarily from operating income, interest revenue and capital contributions. Total assets increased by \$2,923,213 and liabilities decreased by \$187,903 from the prior year. Additionally, the Authority is in a favorable position to address the cash flow needs of the operations of the Authority scheduled during 2012.

The statement of revenue, expenses, and changes in net assets for the current year shows that revenue more than covered expenses. The increase in net assets resulted from revenue streams from operating grants, capital grant funding, and transportation service fares and fees. The Authority earned \$2,474,755 in transportation service fares and fees. Capital contributions consisting of federal, State and local grants totaled \$4,473,277 for the year ended June 30, 2011. Operating grants and contributions totaled \$4,801,670.

Cape Fear Public Transportation Authority

Management's Discussion and Analysis (Unaudited)

June 30, 2011

Condensed Statement of Revenue, Expenses and Change in Fund Net Assets

Figure 2

	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 2,474,755	\$ 2,375,809
Operating expenses	<u>8,709,529</u>	-
Operating loss	<u>(6,234,774)</u>	-
Nonoperating revenue	<u>4,872,613</u>	<u>4,707,763</u>
Loss before capital contributions	(1,362,161)	4,707,763
Capital Contributions	4,473,277	2,574,209
Increase in net assets	<u>\$ 3,111,116</u>	<u>\$ 7,281,972</u>

For the year ended June 30, 2011, most of the increase in net assets over the prior year was generated from capital contributions. The Authority had an operating loss of (\$6,234,774) from its operations and had a loss before capital contributions of \$(1,362,161). Capital contributions were primarily for the construction of the transfer station and for the purchase of two energy efficient buses. The Authority received a total of \$1,427,915 from its primary government, City of Wilmington, North Carolina. The remainder of the Authority's operating and capital grants were received from the Federal Transit Administration, North Carolina Department of Transportation and New Hanover County. The Authority's expenses increased by \$1,102,206 over the prior year primarily due to increases in salaries and wages, fringe benefits, fuel and oil costs, and maintenance and repair costs.

Cape Fear Public Transportation Authority

Management's Discussion and Analysis (Unaudited) June 30, 2011

Capital Assets. The undepreciated cost Authority capital assets consisted of the following as of June 30, 2011.

	June 30,	
	2011	2010
Capital Assets		
Land	\$ 2,389,453	\$ 2,389,453
Buildings and improvements	5,428,224	545,899
Buses	9,084,034	7,901,542
Other vehicles	1,575,801	1,634,219
Furniture, fixtures, machinery and equipment	1,495,262	1,043,768
Construction in progress	4,838	1,835,485
Total	<u>19,977,612</u>	<u>15,350,366</u>

The Authority capital asset additions during the year ended June 30, 2011 included:

- \$3,046,840 in construction costs related to the new Cando street transfer station and related infrastructure improvements.
- \$1,182,492 for the purchase of two new energy efficient buses.
- \$479,566 for new machinery, equipment, furniture and fixtures including new camera equipment for the buses.

See Note 5 in the notes to financial statements for additional information.

Long-Term Debt. The Authority had no outstanding debt as of June 30, 2011 or 2010.

Economic Factors

The Authority serves customers primarily in New Hanover County but also from Brunswick and Pender Counties. New Hanover County currently has an estimated population of 202,667. Of that amount 106,882 reside in the /city of Wilmington which is the Authority's primary government. The 2011 unemployment rate in the City is 9.3% which is lower than the State of North Carolina and the same as the federal unemployment rate. The Authority is impacted by a number of different economic factors and takes these in consideration when approving budgets. Potential budget reductions at the State level as well as potential reductions in federal transit funding are being closely monitored as well as any adverse trends in fuel costs. However, the Board and management are prepared to respond to any reductions in revenue or increased costs accordingly, to maintain the services levels enjoyed by the Authority's customers.

Cape Fear Public Transportation Authority

**Management's Discussion and Analysis (Unaudited)
June 30, 2011**

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Executive Director, Cape Fear Public Transportation Authority, Forden Station, 505 Cando Street, Wilmington NC, 28405

Albert Eby, Executive Director
Cape Fear Public Transportation Authority
Wilmington, North Carolina

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**BASIC
FINANCIAL STATEMENTS**

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Cape Fear Public Transportation Authority

Statement of Net Assets

June 30, 2011

Assets

Current Assets

Cash and cash equivalents (Note 3)	\$	160,922
Accounts receivables (Note 7)		109,004
Due from other governments (Note 4)		520,423
Due from primary government		85,865
Inventory of material and supplies		75,641
Total current assets		<u>951,855</u>

Noncurrent Assets

Capital assets (Note 5)		
Land		2,389,453
Building and improvements		5,428,224
Buses		9,084,034
Other vehicles		1,575,801
Furniture, fixtures, machinery and equipment		1,495,262
Construction in progress		4,838
		<u>19,977,612</u>
Less accumulated depreciation		<u>(8,152,656)</u>
Total capital assets		<u>11,824,956</u>
Total assets		<u>12,776,811</u>

Liabilities

Current Liabilities

Accounts payable		
Trade		132,820
Construction		289,034
Compensated absences payable		86,516
Accrued expenses		167,932
Total current liabilities		<u>676,302</u>

Commitments and Contingencies (Notes 6, 8, 9 and 10)

Net Assets

Invested in capital assets		11,824,956
Unrestricted		275,553
Total net assets		<u>\$ 12,100,509</u>

See Notes to Basic Financial Statements.

Cape Fear Public Transportation Authority

Statement of Revenue, Expenses and Changes in Fund Net Assets Year Ended June 30, 2011

Operating revenue	
Charges for services (Note 7)	\$ 2,474,755
Operating expenses	
Labor	3,816,963
Fringe benefits	1,055,911
Fuel and lubricants	1,012,628
Purchased services (Note 10)	346,427
Repairs and maintenance	422,517
Insurance	386,136
Advertising	59,656
Tires and tubes	71,248
Taxicabs	32,227
Utilities	80,438
Materials and supplies	16,460
Office supplies	30,239
Other operating expenses	54,322
Depreciation	1,324,357
Total operating expenses	<u>8,709,529</u>
Operating loss	<u>(6,234,774)</u>
Nonoperating revenue (expense)	
Federal grants	2,415,340
State grants	1,025,917
Operating subsidy from primary government	1,227,474
Operating subsidy from other governments	132,939
Interest income	260
Miscellaneous income	70,927
Loss on disposition of capital assets	(244)
Total nonoperating revenue	<u>4,872,613</u>
Loss before capital contributions	<u>(1,362,161)</u>
Capital contributions	
Federal grants	3,581,549
State grants	618,385
Primary government	200,441
Other government	72,902
Total capital contributions	<u>4,473,277</u>
Increase in net assets	<u>3,111,116</u>
Net assets, beginning	8,989,393
Net assets, ending	<u>\$ 12,100,509</u>

See Notes to Basic Financial Statements.

Cape Fear Public Transportation Authority

Statement of Cash Flows

Year Ended June 30, 2011

<hr/>	
Cash Flows From Operating Activities	
Cash received from customers and users	\$ 2,474,465
Cash payments to suppliers for goods and services	(2,465,941)
Cash payments to or on behalf of employees	(4,891,158)
Net cash used in operating activities	<u>(4,882,634)</u>
Cash Flows From Noncapital Financing Activities	
Operating grants	3,372,264
Operating subsidy from primary government	1,316,648
Operating subsidies from other governments	132,939
Miscellaneous	70,927
Net cash provided by noncapital financing activities	<u>4,892,778</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	8,256
Acquisition of capital assets	(4,902,740)
Capital contributions	4,967,980
Net cash provided by capital and related financing activities	<u>73,496</u>
Cash Flows From Investing Activities	
Interest on investments	260
Net increase in cash and cash equivalents	<u>83,900</u>
Cash and cash equivalents	
Beginning	77,022
Ending	<u>\$ 160,922</u>

(Continued)

Cape Fear Public Transportation Authority

Statement of Cash Flows (Continued)
Year Ended June 30, 2011

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (6,234,774)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,324,357
Changes in assets and liabilities:	
Accounts receivable	(290)
Accounts payable	(109,770)
Compensated absences payable	18,284
Accrued expenses	119,559
Net cash used in operating activities	<u>\$ (4,882,634)</u>

See Notes to Basic Financial Statements.

**NOTES TO BASIC
FINANCIAL STATEMENTS**

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Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting policies of Cape Fear Public Transportation Authority conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity:

Cape Fear Public Transportation Authority (the Authority) ,operating as Wave Transit, is a public authority created in 2005 by a concurrent resolution of New Hanover County (County) and the City of Wilmington (City). The interlocal agreement adopted by the County and City provides for the operation of transportation facilities and transportation services throughout the City of Wilmington and up to 30 miles outside its corporate limits and effectively merged the transportation facilities and services provided by the County and City. The interlocal agreement between the County and the City, with an initial effective term of two years beginning July 1, 2004, may be terminated upon six months written notice to the other party. Unless notice of termination is provided, the agreement shall be automatically renewed for successive five year terms. The agreement is currently in effect through June 30, 2016.

The Authority is governed by an eleven member board. The Authority Board consist of five members appointed by the County, five members appointed by the City, and one member appointed jointly by the County and City from a human service agency served by the public transportation services.

Each proposed annual budget shall be submitted to the County and City for approval by the County Commissioners and City Council. The County and City shall provide annual funding to the Authority as their budgets permit. Any debt necessary for the maintenance, improvement or expansion of the Authority shall be incurred by the County or City for the benefit of the Authority. The Authority shall establish and revise, from time-to-time, a schedule of rates, fees and charges for the use of the services of the Authority. An interlocal agreement between the City and the Authority, effective July 1, 2005, provides that the City will (a) make available to the Authority on July 1 of each fiscal year the annual appropriation approved in the adopted City budget, and (b) allow the Authority access to additional necessary operating funds that exceed the City's annual operating assistance where the Authority has not received awarded federal and/or State operating funds. The agreement may be terminated by the mutual written consent of the parties or upon the lack of an award or termination of federal and/or State funding to the Authority. For financial reporting purposes, in conformity with GASB Codification Section 2100, the Authority is a component unit of the City and is include as such in the City's comprehensive annual financial report.

Basis of Presentation:

All activities of the Authority are accounted for within a single business-type activity and within a single proprietary (enterprise) fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Measurement Focus and Basis of Accounting:

In accordance with North Carolina General Statutes, the Authority budgets and maintains its accounts during the year using the modified accrual basis of accounting, and thereafter prepares external financial statements in accordance with GAAP as applied to governmental entities.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise activities are accounted for on the flow of economic resources measurement focus and on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives or (receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are charges for transportation services. The principal operating expenses for the Authority now include depreciation of capital assets, salaries and fringe benefits, maintenance and repairs and other operating expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant and loan agreements, the Authority funds certain operating and capital expenditures by a combination of specific cost-reimbursement grants, categorical formula grants, and operating revenues. Thus, when operating and capital expenditures are incurred, there are both restricted and unrestricted net assets available to finance these expenditures. It is the Authority's policy to first apply cost-reimbursement grant resources to fund these expenditures, followed by categorical formula grants and then by operating revenues.

As permitted by GAAP, the Authority has elected to apply only applicable FASB statements and interpretations issued before November 30, 1989 in its accounting and reporting practices.

Budgets:

Budgets are adopted utilizing the modified accrual basis of accounting as required by State statute. An annual budget ordinance is adopted for the operating fund (subfund). All annual appropriations lapse at fiscal year end. A project budget ordinance is adopted for the capital project fund (subfund). Project appropriations lapse at the completion of the project.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Expenditures may not legally exceed appropriations at the fund level for the operating fund and at the fund level for the capital project fund. Any appropriations which increase the total amount of appropriations for a fund must be approved by the Board of Directors and the City Council and County Commissioners. The budget may be amended as necessary by the governing board. A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30	Each department head will transmit to the budget officer the budget requests as estimates for their department for the budget year.
June 1	The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.
July 1	The budget ordinance shall be adopted by the governing board.

Cash and Cash Equivalents:

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Deposits and Investments:

All deposits of the Authority are made in board-designated official depositories and are collateralized as required by State statute [G.S. 159-31]. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposits.

State statute [G.S. 159-30 (c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). The securities of the NCCMT cash portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

Accounts Receivables:

Accounts receivables include grant receivables for which eligibility requirements have been satisfied. Management evaluates receivables by identification of troubled accounts and applying historical experience. Management has determined that all receivables are collectible and no allowance for doubtful accounts is required.

Inventory of Material and Supplies:

Materials (principally maintenance parts) and supplies inventories are valued at the lower of cost (first-in, first out) or market.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets and Construction in Progress:

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. All purchased capital assets are valued at original cost at the time of acquisition, with cost including net construction period interest. Donated capital assets are valued at their estimated or appraised fair market value on the date received. The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend assets' lives are not capitalized. The Authority's capital assets include a transfer facility, garage and maintenance facilities, buses, other vehicles, certain equipment, land and construction in progress.

Depreciation is charged to operations using a straight-line method based on the following estimated useful lives:

Asset class	Estimated useful lives
Building and improvements	20 years
Buses	10 - 12 years
Other vehicles	5 - 7 years
Furniture, fixtures, machinery and equipment	5 - 10 years

The Authority may consider capital assets impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired assets will be appropriately reduced in value or discarded if idle. The Authority owns no significant assets that would be considered impaired.

Compensated absences:

As more fully described in Note 10, the Authority contracts with a management company to provide management services, including the furnishing of certain employees to operate and maintain the equipment. As of June 30, 2011, the Authority recorded a liability of \$86,516 for unused vacation benefits for employees of the management company and the Authority. The Authority's vacation policy provide for the accumulation of up to thirty days earned vacation leave for all employees with such leave been fully vested when earned.

The Authority has adopted a last-in first out method of accumulating compensation time. The portion of accumulated leave time which is expected to be liquidated after the next fiscal year end is not considered to be material and, therefore no provision for noncurrent compensated absences has been made in the financial statements.

The Authority's sick leave policy allows for an accumulation of up to a maximum of seventy-five days for employees of the management company and indefinitely for Authority employees. Sick leave does not vest. The Authority has no obligation for accumulated sick leave until it is actually taken; therefore, no accrual for sick leave has been made. The management company provides other benefits to its employees that are reimbursed by agreement.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net Assets:

Net assets consist of the following:

Invested in capital assets - This component of net assets reflects amounts expended for capital assets, net of related debt, if any.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets.

Use of Estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The primary accounting estimates used by the Authority's management having financial significance is the estimation of lives of the capital assets and valuation of receivables for collectability.

Note 2. Compliance with North Carolina General Statutes

During the fiscal year, the Authority did not have a pre-audit certification on its purchase orders to be signed by the finance officer or his deputy thereon, as required by NCGS 159-28(a). If an obligation is evidenced by a contract or agreement requiring the payment of money, or by a purchase order for supplies and materials, the contract, agreement or purchase order shall include on its face a certificate stating that the instrument has been pre-audited in accordance with this subsection. The Authority will add the certification to its purchase orders and authorize the purchasing agent to sign in the capacity of the deputy finance officer.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 3. Cash and Cash Equivalents

At June 30, 2011, cash and cash equivalents is comprised of the following:

Deposits:

All the deposits of North Carolina local governments are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the Authority's name. Under the Pooling Method, which is a statewide collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority's agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agents. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling method. The Authority has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Authority's deposits had a carrying amount of \$59,814 and a bank balance of \$112,457. Of the bank balance, \$112,457 was covered by federal depository insurance.

Cash on hand:

The Authority's cash on hand at June 30, 2011 consisted of various petty cash funds totaling \$300.

Investments:

At June 30, 2011, the Authority's investments consisted of \$100,808 in North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Authority's had no policy for management interest rate or credit risk.

Note 4. Due from other governments

The amount due from other governments as of June 30, 2011 consists of the following:

State operating grant revenues	\$ 50,765
Federal and State capital grant contributions	324,727
Local government sales and use taxes	144,931
	<u>\$ 520,423</u>

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 2,389,453	\$ -	\$ -	\$ 2,389,453
Vans	41,240	-	(41,240)	-
Computer software	28,072	-	(28,072)	-
Construction in progress	1,835,485	-	(1,830,647)	4,838
	<u>4,294,250</u>	<u>-</u>	<u>(1,899,959)</u>	<u>2,394,291</u>
Capital assets being depreciated:				
Buildings and improvements	545,899	4,882,325	-	5,428,224
Buses	7,901,542	1,182,492	-	9,084,034
Other vehicles	1,592,979	42,340	(59,518)	1,575,801
Furniture, fixtures, machinery and equipment	1,015,696	479,566	-	1,495,262
Total capital assets being depreciated	<u>11,056,116</u>	<u>6,586,723</u>	<u>-</u>	<u>17,583,321</u>
Less accumulated depreciation for:				
Buildings and improvements	(498,907)	(62,615)	-	(561,522)
Buses	(4,807,094)	(851,399)	-	(5,658,493)
Other vehicles	(989,816)	(275,278)	51,017	(1,214,077)
Furniture, fixtures, machinery and equipment	(583,499)	(135,065)	-	(718,564)
Total accumulated depreciation	<u>(6,879,316)</u>	<u>(1,324,357)</u>	<u>51,017</u>	<u>(8,152,656)</u>
Total capital assets being depreciated, net	<u>4,176,800</u>			<u>9,430,665</u>
Capital assets, net	<u>\$ 8,471,050</u>			<u>\$ 11,824,956</u>

Note 6. Retirement Plans

North Carolina Local Government Employees' Retirement System

Plan Description. The Authority contributes to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information to LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 6. Retirement Plans (Continued)

Funding Policy: Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarial determined rate. For the Authority, the current rate is 6.35% of annual covered payroll. The contribution requirement of members and of Cape Fear Public Transportation Authority is established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2011, 2010 and 2009 were \$33,190, \$10,007 and \$12,954, respectively. The contributions made by the Authority equaled the required contributions for each year.

Supplemental Retirement Income Plan of North Carolina

Plan Description. The Authority contributes to the Supplemental Retirement Income Plan of North Carolina (Plan), a section 401(k) defined contribution pension plan adopted by the State of North Carolina and administered by the Prudential Insurance Company of America. The Plan provides for retirement benefits for all employees that have elected to become members of the Plan.

Funding Policy. The Authority has elected to contribute on behalf of all employees full matching of employee contributions up to 4.5% of eligible compensation. Authority contributions on behalf of employees were \$11,766 for the year ended June 30, 2011. The plan provides for voluntary contributions on part of all employees of not less than 1% of eligible compensation. Voluntary contributions by employees were \$14,787 for the year ended June 30, 2011.

Note 7. Major Customers

The Authority's operating revenue consists of farebox and contract revenues. Transactions with various governmental agencies accounted for the following revenues and related accounts receivable at June 30, 2011:

Customer	Revenues	Percentage of Operating Revenues	Accounts Receivable
University of North Carolina at Wilmington	\$ 877,194	35.4%	\$ -
New Hanover County Department of Social Services	572,951	23.2%	45,935
New Hanover County Department of Aging	171,451	6.9%	17,019
New Hanover County Other Agencies	123,666	5.0%	-
	<u>\$ 1,745,262</u>		<u>\$ 62,954</u>

Note 8. Contingencies

Under the terms of federal and state grants, monitoring and periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. The Authority's management believes disallowances arising from such audits, if any, will not be significant. No provisions for the refund of grant moneys have been made in the accompanying financial statements.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 8. Contingencies (Continued)

Also, under the terms of federal and State assistance programs, capital assets acquired partially or entirely with federal or State funds have asset disposition restrictions which provide for the disposition of assets or proceeds from the approved sales in accordance with federal or State regulations.

At June 30, 2011, the Authority was a defendant in various lawsuits. In the opinion of the Authority's management and attorney, the ultimate effect of these matters will not have a material adverse effect on the Authority's financial position.

Note 9. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority is a participant in two self-funded risk financing pools administered by the North Carolina Association of County Commissioners (NCACC). Through these pools the Authority obtains the following major policies and their limits: general liability (\$2 million), fire and property damage (\$100,000 per occurrence), automobile liability (\$2 million), public officials liability (\$2 million), employment practices liability (\$2 million), excess liability (\$3 million) and workers' compensation coverage up to the statutory limits. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. The Authority carries health and dental coverage through commercial carriers for the Authority's employees.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The Director of Finance is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

The Authority carries flood insurance through the North Carolina Association of County Commissioners with a \$5,000,000 annual aggregate coverage subject to a \$25,000 deductible for flood zones other than A and V. Annual aggregate coverage for flood zones A and V is \$1,000,000 with a minimum retention of \$500,000 for buildings and \$500,000 for personal property.

Note 10. Management Agreement

The Authority retains a transit management company to provide management and operational services for the transportation system. For the year ended June 30, 2011, those services were provided under a contract with Professional Transit Management, Ltd. (PTM) who shall employ, furnish and supervise certain personnel necessary for the management and operation of the public transportation system. In addition, the agreement provides for assistance with certain other managerial functions required for the day-to-day operations of the Authority. For the year ended June 30, 2011, the Authority incurred management fees totaling \$82,452 which is included in purchased services. As of July 1, 2011, the Authority had contracted with First Transit, Inc. (FTI) to perform the professional and operational services noted above. The contract with FTI is for three years and provides for minimum payments of \$137,500, \$141,625 and \$145,874 for the periods ended June 30, 2012, 2013 and 2014, respectively.

Cape Fear Public Transportation Authority

Notes to Basic Financial Statements

Note 11. Pronouncements Issued but Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2011 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Authority,

GASB Statement Number 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" will be effective for the Authority beginning with its year ending June 30, 2012.

GASB Statement Number 60, "Service Concession Arrangements" will be effective for the Authority beginning with its year ending June 30, 2013.

GASB Statement Number 61, "The Financial Reporting Entity: Omnibus" will be effective for the Authority beginning with its year ending June 30, 2013.

GASB Statement Number 62, "Governmental Accounting Standards Series" will be effective for the Authority beginning with its year ending June 30, 2013.

GASB Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" will be effective for the Authority beginning with its year ending June 30, 2013.

GASB Statement Number 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement Number 53" will be effective for the Authority beginning with its year ending June 30, 2012.

SUPPLEMENTARY FINANCIAL INFORMATION

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Schedule of Revenue and Expenditures, Budget and Actual,
 Non-GAAP, Modified Accrual Basis
 For the Year Ended June 30, 2011

	Budget	Actual	Variance, Positive (Negative)
Operating revenues			
Farebox revenues	\$ 855,000	\$ 853,049	\$ (1,951)
Government contracted services	1,555,001	1,596,663	41,662
Other operating revenues	16,250	25,043	8,793
Total operating revenues	2,426,251	2,474,755	48,504
Operating expenditures			
Labor		3,816,963	
Fringe benefits		1,055,911	
Fuel and lubricants		1,012,628	
Purchased services		346,427	
Repairs and maintenance		422,517	
Insurance		386,136	
Advertising		59,656	
Tires and Tubes		71,248	
Taxicabs and leases		32,227	
Utilities		80,438	
Materials and supplies		16,460	
Office supplies		30,239	
Other operating expenses		54,322	
Total operating expenditures	7,389,413	7,385,172	4,241
Deficiency of operating expenditures under revenues	(4,963,162)	(4,910,417)	52,745

(Continued)

Schedule of Revenue and Expenditures, Budget and Actual,
 Non-GAAP, Modified Accrual Basis (Continued)
 For the Year Ended June 30, 2011

	Budget	Actual	Variance, Positive (Negative)
Nonoperating revenues			
Federal grants	\$ 2,382,223	\$ 2,415,340	\$ 33,117
State grants	1,273,000	1,025,917	(247,083)
Operating subsidy from primary government	1,175,000	1,227,474	52,474
Operating subsidies from other governments	132,939	132,939	-
Other income	-	71,187	71,187
Total nonoperating revenues	4,963,162	4,872,857	(90,305)
Deficiency of revenues under expenditures	\$ -	(37,560)	\$ (37,560)
Reconciliation: modified accrual basis with full accrual:			
Capital contributions		4,473,277	
Depreciation		(1,324,357)	
Loss on disposal of capital assets		(244)	
Increase in net assets		\$ 3,111,116	

**Cape Fear Public Transportation Authority
Capital Project Subfund**

**Schedule of Revenue and Expenditures, Budget and Actual,
Non-GAAP, Modified Accrual Basis
From Inception and for the Fiscal Year Ended June 30, 2011**

	Total Project Estimates	Actual		Total To Date
		Prior Years	Current Year	
Revenue				
Restricted intergovernmental:				
Federal grants	\$ 7,149,793	\$ 3,851,248	\$ 3,581,549	\$ 7,432,797
State grants	4,181,766	2,666,344	618,385	3,284,729
Primary government	743,478	484,762	200,441	685,203
Other governments	569,208	176,547	72,902	249,449
Total revenue	12,644,245	7,178,901	4,473,277	11,652,178
Expenditures				
N.C. Moving Ahead	3,518,350	2,302,846	65,602	2,368,448
Section 5307 Capital	304,386	187,267	74,327	261,594
Section 5309 Capital	5,261,560	2,613,371	2,916,595	5,529,966
Section 5311 Capital	777,952	746,068	-	746,068
Section 5317 Capital	89,509	89,509	-	89,509
Advanced Technology Program	240,000	188,116	372,147	560,263
American Recovery and Reinvestment Act	2,490,960	995,506	1,258,093	2,253,599
Route Restructuring	100,000	100,000	-	100,000
Total expenditures	12,782,717	7,222,683	4,686,764	11,909,447
Excess of expenditures over revenues	(138,472)	(43,782)	(213,487)	(257,269)
Other financing sources				
Transfer from operating fund	138,472	43,782	-	43,782
Total other financing sources (uses)	138,472	43,782	-	43,782
Excess of revenues over (under) expenditures and other financing sources (uses)	\$ -	\$ -	\$ (213,487)	\$ (213,487)

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**INTERNAL CONTROL
and
COMPLIANCE SECTION**

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**Independent Auditor's Report
on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Basic Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
Cape Fear Public Transportation Authority
Wilmington, North Carolina

We have audited the financial statements of Cape Fear Public Transportation Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 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

Management of Cape Fear Public Transportation Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cape Fear Public Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cape Fear Public Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as finding 11-01, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cape Fear Public Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as finding 11-01.

We noted certain matters that we reported to the management of Cape Fear Public Transportation Authority in a separate letter dated November 30, 2011.

Cape Fear Public Transportation Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Cape Fear Public Transportation Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, members of the Authority, federal and State awarding agencies and pass through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Wilmington, North Carolina
November 30, 2011



**Independent Auditor's Report
on Compliance With Requirements
That Could Have a Direct and Material Effect
on Each Major Federal Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133
and the State Single Audit Implementation Act**

To the Board of Directors
Cape Fear Public Transportation Authority
Wilmington, North Carolina

Compliance

We have audited Cape Fear Public Transportation Authority's ("Authority") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2011. The Authority's major federal program is 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 its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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; OMB Circular A-133 and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 the Authority'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 the Authority's compliance with those requirements.

In our opinion, Cape Fear Public Transportation Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Cape Fear Public Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the 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 Cape Fear Public Transportation Authority'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, others within the organization, members of the Authority, federal and state awarding agencies and pass-through entities, and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Wilmington, North Carolina
November 30, 2011



**Independent Auditor's Report on Compliance
With Requirements That Could Have a Direct
and Material Effect on Each Major State Program
and on Internal Control Over Compliance in Accordance
With Applicable Sections of OMB Circular A-133 and
the State Single Audit Implementation Act**

To the Board of Directors
Cape Fear Public Transportation Authority
Wilmington, North Carolina

Compliance

We have audited Cape Fear Public Transportation Authority's ("Authority") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that are applicable to each of its major State programs for the year ended June 30, 2011. The Authority's major State 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 State programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 the Authority's compliance with those requirements.

In our opinion, Cape Fear Public Transportation Authority 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 State programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Cape Fear Public Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major State 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 applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 Cape Fear Public Transportation Authority'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 State 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 State 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, others within the organization, members of the Authority, and federal and State awarding agencies and pass-through entities, and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Wilmington, North Carolina
November 30, 2011

Cape Fear Public Transportation Authority

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011**

Section 1. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major federal program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major federal program:

<u>Program Name</u>	<u>CFDA</u>
Federal Transit Formula Grant (Urbanized Area Formula Planning Cluster/Capital investment Grants	20.507/20.500

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? Yes No

(Continued)

Cape Fear Public Transportation Authority

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2011**

State Awards

Internal control over major State programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major State programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act

Yes No

Identification of major State programs:

<u>Program Name</u>	<u>State ID Number</u>
State Maintenance Assistance Program	DOT - 9
Technology Program	DOT - 10

Section 2. Financial Statement Findings

Finding 11-01

Significant Deficiency – Compliance - Purchase Order Approval

Criteria: North Carolina General Statute 159-28(a)

Condition and Context: During the course of our audit, we noted that the Authority was issuing purchase orders prior to the pre-audit certification being approved by the Finance Officer or Finance Officer's designee.

Effect: Purchase orders were issued prior to the pre-audit certification. According to General Statute 158-28(a), the Authority cannot incur any obligation unless the Finance Officer or Finance Officer's designee pre-audits the obligation to ensure the budget ordinance or project ordinance includes an appropriation created for the transaction or an unencumbered balance remains in the appropriation sufficient to pay the amount to be disbursed.

Recommendation: We recommend the Authority implement controls in order to ensure pre-audit certifications are obtained for all purchase orders prior to their issuance.

Views of Responsible Officials: The Authority plans to add the pre-audit certification to its purchase orders. Additionally, the Authority is going to authorize the Purchasing Agent to approve the pre-audit certification in the capacity of a Deputy Finance Officer.

Cape Fear Public Transportation Authority

**Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2011**

Section 3. Federal Award Findings and Questioned Costs

None reported

Section 4. State Award Findings and Questioned Costs

None reported

Cape Fear Public Transportation Authority

**Corrective Action Plan
For the Year Ended June 30, 2011**

Finding 11-01 Significant Deficiency – Purchase Order Approval

Contact Name: Albert Eby, Executive Director

Corrective Action: The Authority is in the process of adding the required pre-audit certification language to all of its purchase orders. Additionally, the Authority plans to authorize the Purchasing Agent to approve the pre-audit certification in the capacity of a Deputy Finance Officer.

Effective Date: July 1, 2011

Cape Fear Public Transportation Authority

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011**

There are no prior findings (as that term is defined in OMB Circular A-133) that require reporting in this schedule.

Cape Fear Public Transportation Authority

**Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2011**

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
Federal Assistance					
U. S. Department of Transportation					
Pass-Through Federal Transit Administration:					
Urbanized Area Formula Planning Cluster					
Formula Grants (Operating)	20.507	NC-90-X438-02	M \$ 2,129,386	\$ -	\$ 2,469,349
Formula Grants (Capital)	20.507	NC-90-X438-02	M 42,000	-	32,237
Formula Grants (ARRA)	20.507	NC-96-X001-01	M 1,187,919	-	70,174
Capital Investment Grants	20.500	NC-04-0017-01	M 2,301,339	203,284	372,050
Total Urbanized Area Formula Planning Cluster			5,660,644	203,284	2,943,810
Pass-Through North Carolina					
Department of Transportation:					
Federal Transit Technical Studies Grants	20.505	NC-03-0075-01	27,456	-	6,864
Formula Grants for other than					
Urbanized Areas (Operating)	20.509	11-CT-052	122,563	7,660	-
New Freedom Program	20.521	10-NF-052	140,206	-	-
Total U. S. Department of Transportation			5,950,869	210,944	2,950,674
State Grants (all direct):					
Department of Transportation					
Public Transportation Division					
State Maintenance Assistance Program	DOT-9	11-SM-090	M -	771,331	-
Technology Program	DOT-10	09-AT-001	M -	153,932	17,103
Technology Program	DOT-10	11-AT-001	M -	181,000	20,112
Transit Developmental Program (Capital)	DOT-11	11-DG-052	-	29,847	3,317
NC Moving Ahead	DOT-22	04-MA-002	-	59,042	6,560
Pass Through New Hanover County					
Rural Operating Assistance Program	DOT-22	04-MA-002	-	255,248	-
Total Department of Transportation			-	1,450,400	47,092
Total Federal and State Expenditures			\$ 5,950,869	\$ 1,661,344	\$ 2,997,766

M Indicates major program

See Notes to the Schedule of Expenditures of Federal and State Awards.

Cape Fear Public Transportation Authority

Notes to the Schedule of Expenditures of Federal and State Awards For the Year Ended June 30, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Cape Fear Public Transportation Authority and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and the *State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.