



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 24, 2011

Fall River Line Pier, Inc.

For the period January 1, 2009 through December 31, 2010



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INTRODUCTION**1**

The Fall River Line Pier, Inc. (FRLP) was created by Chapter 665 of the Acts of 1945 to establish, operate, and maintain a pier for the shipment of freight and merchandise by water. On November 19, 1946, FRLP was chartered as a not-for-profit corporation under the provisions of Chapter 180 of the Massachusetts General Laws to establish, operate, and maintain a pier in Fall River, Massachusetts.

FRLP leases its premises from the Commonwealth of Massachusetts under a 50-year lease that began on March 24, 1964. According to the lease agreement between FRLP and the Department of Conservation and Recreation (DCR), which is designated as the Commonwealth's oversight agency, all FRLP budgetary matters, capital acquisitions, and improvements require the written approval of DCR. As most recently amended, the lease agreement states that the annual net operating profits of FRLP, as determined by the State Auditor, is to be transferred to two stabilization accounts as detailed in the Audit Result.

The objectives of our audit were to assess the adequacy of FRLP's management control system for recording, reporting, and monitoring its financial activities and safeguarding its assets. We also reviewed the status of prior audit results and assessed FRLP's compliance with applicable laws, rules, and regulations.

Based on our audit we have determined that, for the period January 1, 2009 through December 31, 2010, the FRLP maintained adequate management controls for recording, reporting, and monitoring its financial activities and safeguarding its assets, and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

PRIOR AUDIT RESULT RESOLVED: NET PROFITS TOTALING \$368,065 NOT TRANSFERRED TO THE COMMONWEALTH**3**

Our prior audit report (No. 2009-0504-3A) noted that FRLP was not in compliance with the terms of its lease with the Commonwealth. Specifically, FRLP had not transferred net profits totaling \$368,065 to the Commonwealth as required by its lease. Our follow-up review revealed that this issue has been resolved pursuant to the agreement under the Fifth Amendment to the lease between the Lessor, the Commonwealth of Massachusetts represented by DCR, and the Lessee, FRLP. The lease agreement no longer requires FRLP to transfer operating profits to the Commonwealth; instead, the lease agreement requires the funding of two stabilization accounts derived from FRLP net operating profits. The first stabilization account is the Operating Stabilization Fund which has been increased from \$20,000 to \$50,000 and will be used to offset future losses. The second stabilization account is the establishment of a Capital Stabilization Fund that will be, with prior approval of the DCR, used to fund capital repairs, improvements, and purchase of equipment.

Our audit certified that accumulated net operating profits as of December 31, 2010 were \$351,375. This allowed the FRLP to fund the Operating Stabilization Fund fully at \$50,000 and the Capital Stabilization Fund at \$301,375.

INTRODUCTION

Background

The Fall River Line Pier, Inc. (FRLP) was created by Chapter 665 of the Acts of 1945 to establish, operate, and maintain a pier for the shipment of freight and merchandise by water. On November 19, 1946, FRLP was chartered as a not-for-profit corporation under the provisions of Chapter 180 of the Massachusetts General Laws to establish, operate, and maintain a pier in Fall River, Massachusetts.

FRLP leases its premises from the Commonwealth of Massachusetts and is charged \$1 a year, according to the terms of a 50-year lease that began on March 24, 1964. The original lease included a rent schedule that totaled \$1 million and called for rent payments over 20 years. The original lease was periodically amended. One amendment, dated June 16, 1981, provided for the transfer of FRLP's profits to the Commonwealth. The most current amendment, dated April 2, 2010, provides for the establishment of a Capital Stabilization Fund that will accumulate net profits after adjustments for losses. This fund will begin with a balance of \$215,579 that takes into account past profits and losses as of December 31, 2007.

FRLP (Lessee) shall now be allowed to use prior year ordinary losses to offset against prior year accumulated profits in the computation of the amount owed to the Commonwealth of Massachusetts and may expend said net profits subject to the prior written approval of the Department of Conservation and Recreation (DCR, Lessor) only for the purpose of making capital repairs and improvements and for the purpose of purchasing equipment or, at the written direction of the Lessor, pay over such funds to the Lessor as provided for in the lease.

DCR also agreed that commencing in calendar year 2009, the FRLP may deposit into and maintain in the Operating Stabilization Fund a maximum balance of \$50,000. Upon the expiration of this lease, or any extensions or renewals thereof, the FRLP shall within 30 days subsequent to said expiration date pay over to the Commonwealth all remaining balances in said FRLP stabilization accounts.

According to the FRLP lease agreement dated June 16, 1981, the DCR, formerly the Department of Environmental Management, has been designated as the Commonwealth's oversight agency, and all FRLP budgetary matters and capital expenditures require written approval by DCR. According to

the April 2, 2010 lease amendment, the annual net operating profits of FRLP are now to be retained by the FRLP and transferred into the stabilization accounts. Chapter 764 of the Acts of 1963 requires that the State Auditor perform an annual audit of FRLP's books, and the amended lease states that the net profit, as determined by the State Auditor, is deemed final.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of certain activities of FRLP for the period January 1, 2009 through December 31, 2010. The objectives of our audit were to assess the adequacy of FRLP's management control system for recording, reporting, and monitoring its financial activities and safeguarding its assets. We also reviewed the status of the audit results contained in our prior report (No. 2009-0504-3A) and assessed FRLP's compliance with applicable laws, rules, and regulations.

We conducted this performance audit in accordance with generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our objectives, we:

- Reviewed and assessed FRLP's administrative and accounting procedures and controls.
- Reviewed budgets and financial reports that FRLP filed with DCR.
- Reviewed operations for compliance with applicable laws, rules, and regulations.
- Tested transactions pertaining to revenue collection, accounts receivable, disbursements, procurements, payroll, and inventory.
- Reviewed FRLP's progress in addressing the issues revealed in our prior audit report (No. 2009-0504-3A).

Based on our audit we have determined that, for the period January 1, 2009 through December 31, 2010, the FRLP maintained adequate management controls for recording, reporting, and monitoring its financial activities and safeguarding its assets, and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

PRIOR AUDIT RESULT RESOLVED: NET PROFITS TOTALING \$368,065 NOT TRANSFERRED TO THE COMMONWEALTH

Our prior audit report (No. 2009-0504-3A) noted that the Fall River Line Pier, Inc. (FRLP) was not in compliance with the terms of its lease with the Commonwealth. Specifically, FRLP had not transferred net profits totaling \$368,065 as of December 31, 2008 to the Commonwealth as required by its lease. Our follow-up review revealed that this issue has been resolved pursuant to the agreement under the April 2, 2010 Fifth Amendment to the lease the Commonwealth of Massachusetts represented by the Department of Conservation and Recreation (DCR) and the FRLP. The lease agreement no longer requires FRLP to transfer net operating profits to the Commonwealth; instead, the lease agreement requires the funding of two stabilization accounts derived from FRLP net operating profits. The first stabilization account is the Operating Stabilization Fund which has been increased from \$20,000 to \$50,000 and will be used to offset future losses. The second stabilization account is the establishment of a Capital Stabilization Fund that will be, with prior approval of the DCR, used to fund capital repairs, improvements, and purchase of equipment. The amended lease also reduced the past liabilities that were due the Commonwealth to \$215,579 as of December 31, 2007. This reduction resulted in an adjustment in the amount of our previously reported amount due the Commonwealth as of December 31, 2008 by \$44,667 to \$323,398.

Our current audit determined that FRLP had, as determined by the lease, a net operating profit of \$28,761 during calendar year 2009 and a net operating loss of \$784 during calendar year 2010 resulting in accumulated net operating profits as of December 31, 2010 of \$351,375. This allowed the FRLP to fund the Operating Stabilization Fund fully at \$50,000 and the Capital Stabilization Fund at \$301,375.