

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a component Unit of the Commonwealth of Massachusetts)

Basic Financial Statements, Supplementary Data
For the Year Ended June 30, 2011

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)

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NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2011

The management of the Nantucket Regional Transit Authority (the Authority) has generated this narrative overview and analysis to assist our readers in understanding the Authority's basic financial statements.

Financial Highlights

- * The assets of the Authority exceeded its liabilities at June 30, 2011 by \$2,919,000.
- * The Authority's total net assets increased by \$690,000 during the current year.
- * The total operating revenue increased from \$319,000 in fiscal year 2010 to \$372,000 in fiscal year 2011, a \$53,000 increase.
- * The operating expenses increased from \$1,760,000 in fiscal year 2010 to \$2,155,000 in fiscal year 2011, an \$395,000 increase.
- * The Authority expended \$1,089,000 for capital assets. Of this amount, \$1,069,000 was expended for buses, vans, and related equipment. These acquisitions were funded through the Department of Transportation pursuant to the American Recovery and Reinvestment Act (ARRA) and through Commonwealth of Massachusetts capital appropriations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the following: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows and the Notes to the Financial Statements.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables or unpaid accounts payable).

The statement of cash flows indicates the sources of the Authority's cash inflows and the uses of its cash outflows.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
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Financial Position Analysis

The following is a condensed statement of net assets. It also indicates percentage changes in the Authority's assets, liabilities and net assets.

Statement of Net Assets
(000 omitted)

	2011	2010	Percentage Change
Current assets	\$ 2,206	\$ 2,064	7%
Capital assets, net	2,613	1,923	36%
Other noncurrent assets	505	520	-3%
Total assets	<u>5,324</u>	<u>4,507</u>	<u>18%</u>
Noncurrent liabilities	2,137	2,093	2%
Current liabilities	268	185	45%
Total liabilities	<u>2,405</u>	<u>2,278</u>	<u>6%</u>
Net assets			
Invested in capital assets	2,613	1,923	36%
Restricted	152	134	13%
Unrestricted	154	172	-10%
Total net assets	<u>\$ 2,919</u>	<u>\$ 2,229</u>	<u>31%</u>

Net assets may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$2,919,000 at the close of the fiscal year.

By far the largest portion of the Authority's net assets \$2,613,000 (90 percent) reflects its investment in capital assets (e.g., Buses and vans, equipment and leasehold improvement - building). The Authority uses these capital assets to provide transportation services to the general public; consequently, these assets are not available for future spending.

An additional portion of the Authority's net assets \$152,000 (5 percent) represents resources that are subject to external restrictions on how they may be used. The bulk of the restricted net assets (5% of total net assets) represents the reserve for extraordinary expense and the stabilization fund.

The remaining balance of unrestricted net assets, \$154,000 (5%), may be used to meet the Authority's ongoing obligations to creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in all three categories of net assets.

The Authority's net assets increased by \$690,000 during the current fiscal year.

The Authority's total debt increased by \$127,000 (6%) during the current year. This increase was caused primarily by an increase in Revenue Anticipation notes of \$100,000 and an increase of \$27,000 in accounts payable and accrued expense.

NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2011

Operations Analysis

The following is the Authority's statement of revenues, expenses and changes in net assets. It also indicates percentage changes in the various accounts.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(000 omitted)

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Operating revenues			
Transportation services	\$ 372	\$ 319	17%
Operating expenses			
Cost of services, maintenance and administration	1,756	1,443	22%
Depreciation	399	317	26%
	<u>2,155</u>	<u>1,760</u>	<u>22%</u>
Operating loss	<u>(1,783)</u>	<u>(1,441)</u>	<u>24%</u>
Nonoperating revenues and (expenses)			
Operating assistance	1,402	1,168	20%
Other nonoperating	(18)	(23)	-22%
	<u>1,384</u>	<u>1,145</u>	<u>21%</u>
Loss before capital contribution	<u>(399)</u>	<u>(296)</u>	<u>35%</u>
Capital contributions	1,089	352	209%
	<u>1,089</u>	<u>352</u>	<u>209%</u>
Increase in net assets	690	56	1132%
Net assets			
Beginning of year	2,229	2,173	3%
End of year	<u>\$ 2,919</u>	<u>\$ 2,229</u>	<u>31%</u>

The Authority's operating loss increased by \$342,000 from the prior year.

Operating revenues increased \$53,000 (17%).

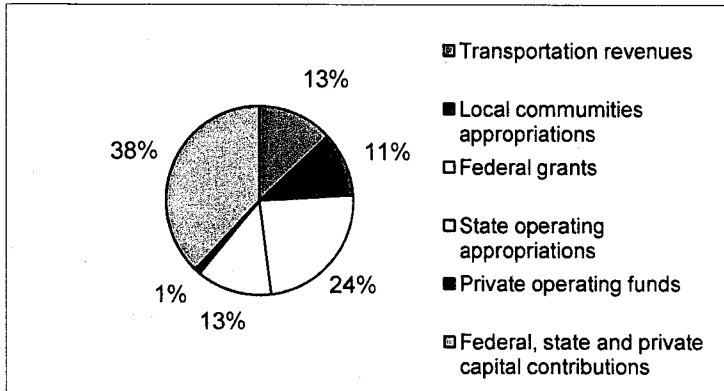
Operating expenses increased by \$395,000 (22%).

There was an increase in the "increase in net assets" of \$634,000.

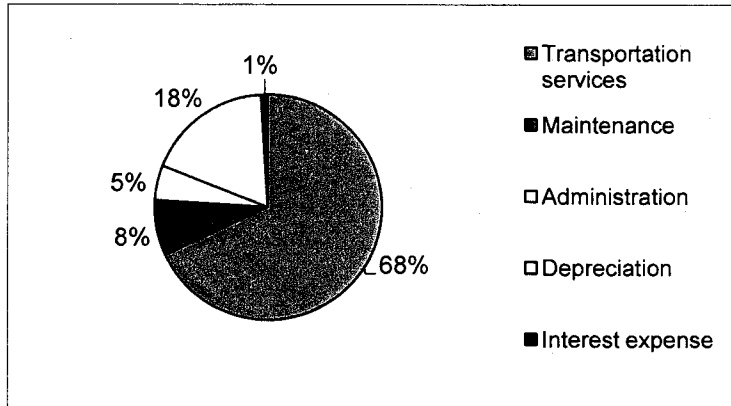
**NANTUCKET REGIONAL TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
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The revenues and expenses by source are delineated in the following graphs:

Revenues by source:



Expenses by source:



Financial Ratios

"Working Capital" is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to current liabilities, is an indicator of the ability to pay current obligations.

	<u>2011</u>	<u>2010</u>
Working Capital	\$ 1,938,000	\$ 1,879,000
Current ratio	8:1	11:1

The working capital and current ratio indicate that the Authority has an excellent ability to meet current obligations.

"Liabilities to Net Assets" indicates the extent of borrowing.

	<u>2011</u>	<u>2010</u>
Liabilities to net assets	82%	102%

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Capital and Debt Administration

Capital Assets

The Authority's investment in capital assets as of June 30, 2011 amounted to \$2,613,000, net of depreciation. The investment in capital assets includes Buses and vans, equipment, intangible assets and accumulated leasehold improvement - building. The total net increase in capital assets for the current year was \$690,000 or a 3.6% increase.

During the current year, the most significant capital asset events were the acquisition of rolling stock in the amount of \$1,069,000, the acquisition of equipment in the amount of \$17,000 and leasehold improvements in the amount of \$3,000.

Capital assets at year-end net of depreciation
(000 omitted)

	<u>2011</u>	<u>2010</u>
Leasehold improvement - building	\$ 681	\$ 678
Buses and vans	4,223	3,154
Equipment	438	421
Intangible assets	18	18
	<u>5,360</u>	<u>4,271</u>
Less accumulated depreciation	(2,747)	(2,348)
	<u><u>\$ 2,613</u></u>	<u><u>\$ 1,923</u></u>

Revenue Anticipation Notes

The Authority had revenue anticipation notes of \$1,907,000 and \$1,807,000 at the end of 2011 and 2010, respectively.

Economic Factors

Funding for the Authority's net cost of service (noncapital expenses less all noncapital revenues except state contract assistance and member municipality assessments) is dependent primarily (54%) on operating assistance from the Commonwealth of Massachusetts and 46% by assessments to member communities. This operating assistance is funded a year in arrears by the State (the Authority's fiscal year 2011 assistance will be included in the Commonwealth's fiscal 2012 budget).

Demand for the Authority's services is mainly affected by the overall economy, seasonality and weather conditions. The decline in revenues in 2009 and 2010 was caused primarily by the economic down turn and poor weather conditions. The current fiscal year had better weather conditions and a leveling of economic conditions, causing an increase in revenue.

The Authority's operating revenue for the past four years are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Farebox revenue	\$ 364,000	\$ 353,000	\$ 314,000	\$ 366,000
Other revenue	22,000	30,000	8,000	9,000

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Contacting the Authority's Financial Management

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions or need additional information, contact Paula Leary, Administrator, Nantucket Regional Transit Authority, 3 E. Chestnut Street, Nantucket, MA 02554.

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

The Advisory Board
Nantucket Regional Transit Authority

We have audited the accompanying statement of net assets of Nantucket Regional Transit Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 the Authority as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 a report dated August 16, 2011 on our consideration of the Authority's internal control over financial reporting and 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 audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vi and the Required Supplementary Information – Retiree Health Plan Funding Progress schedule on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary information included in the accompanying schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bruce D. Norling, CPA, P.C.

August 16, 2011

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)

Statement of Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 783,829	\$ 791,542
Receivable for operating assistance	1,296,940	1,180,124
Other current assets	125,205	92,192
Total current assets	<u>2,205,974</u>	<u>2,063,858</u>
Noncurrent assets		
Restricted assets		
Cash and cash equivalents	180,308	193,625
Receivable capital assistance	201,861	226,700
Total restricted assets	<u>382,169</u>	<u>420,325</u>
Receivable for operating assistance	123,099	100,080
Capital assets, net	2,612,529	1,922,865
Total noncurrent assets	<u>3,117,797</u>	<u>2,443,270</u>
Total assets	<u>5,323,771</u>	<u>4,507,128</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expense	256,533	162,753
Unearned revenue	11,270	21,983
Total current liabilities	<u>267,803</u>	<u>184,736</u>
Noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable and accrued expense	230,186	286,326
Revenue anticipation notes	1,906,614	1,806,655
Total noncurrent liabilities	<u>2,136,800</u>	<u>2,092,981</u>
Total liabilities	<u>2,404,603</u>	<u>2,277,717</u>
NET ASSETS		
Invested in capital assets	2,612,529	1,922,865
Restricted	151,983	133,999
Unrestricted	154,656	172,547
Total net assets	<u>\$ 2,919,168</u>	<u>\$ 2,229,411</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Transportation services	\$ 372,188	\$ 319,435
Operating expenses		
Transportation service	1,464,913	1,223,035
Maintenance	174,730	108,734
General and administration	116,313	111,327
	<u>1,755,956</u>	<u>1,443,096</u>
Depreciation expense	398,733	317,419
	<u>2,154,689</u>	<u>1,760,515</u>
Operating loss	(1,782,501)	(1,441,080)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	694,222	481,445
Commonwealth of Massachusetts	372,634	372,634
Local	321,789	313,940
Private Funding	12,844	
Interest expense	(17,721)	(23,066)
	<u>1,383,768</u>	<u>1,144,953</u>
Loss before capital contributions	(398,733)	(296,127)
Capital contributions		
Commonwealth of Massachusetts capital assistance grants	180,656	220,646
Federal	815,334	70,551
Private funding	92,500	61,455
	<u>1,088,490</u>	<u>352,652</u>
Increase in net assets	689,757	56,525
Net assets, beginning of year	<u>2,229,411</u>	<u>2,172,886</u>
Net assets, end of year	<u>\$ 2,919,168</u>	<u>\$ 2,229,411</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)

Statement of Cash Flows

Year Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Transportation services	\$ 372,188	\$ 319,435
Payments to vendors and suppliers	(1,492,979)	(1,252,564)
Payments to employees	(157,727)	(141,284)
Payments of fringe	<u>(46,556)</u>	<u>(44,586)</u>
Net cash used in operations	<u>(1,325,074)</u>	<u>(1,118,999)</u>
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	1,906,726	1,806,749
Repayment of revenue anticipation notes	(1,800,000)	(1,605,870)
Operating assistance grants	1,248,810	1,139,653
Private funding	12,844	
Interest on notes	<u>(26,921)</u>	<u>(26,040)</u>
Net cash provided by noncapital financing activities	<u>1,341,459</u>	<u>1,314,492</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,131,331)	(232,522)
Capital contributions		
United States Department of Transportation	819,567	45,113
Commonwealth of Massachusetts capital appropriations	201,262	175,414
Other	<u>70,518</u>	<u>61,455</u>
Net cash (used in) provided by capital and related financing activities	<u>(39,984)</u>	<u>49,460</u>
Cash flows from investing activities		
Interest income	<u>2,569</u>	<u>2,994</u>
Net cash provided by investing activities	<u>2,569</u>	<u>2,994</u>
Net increase (decrease) in cash and cash equivalents	(21,030)	247,947
Cash and cash equivalents at beginning of year	<u>985,167</u>	<u>737,220</u>
Cash and cash equivalents at end of year	<u>\$ 964,137</u>	<u>\$ 985,167</u>
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (1,782,501)	\$ (1,441,080)
Adjustments to reconcile the operating loss to net cash used in operating activities:		
Depreciation expense	398,733	317,419
Other		4,773
Changes in assets and liabilities:		
Other assets	(33,013)	29,999
Accounts payable and accrued expense	<u>91,707</u>	<u>(30,110)</u>
Net cash used in operations	<u>\$ (1,325,074)</u>	<u>\$ (1,118,999)</u>
Supplemental disclosures of noncash transactions		
Capital assets purchased on behalf of the Authority by the Commonwealth of Massachusetts	\$	\$ 56,391
At June 30, 2011 and 2010, the Authority had capital expenditures that were included in accounts payable	188,414	253,326

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2011 and 2010

1. The Authority and Operators

The Nantucket Regional Transit Authority (the Authority) is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The Authority was established as a political subdivision of the Commonwealth on April 15, 1986, by the Town of Nantucket, the sole member community of the Authority. This was done pursuant to Section 3 of Chapter 161B of the General Laws of the Commonwealth, for the purpose of continuing and improving local transit service. The Authority does not have any stockholders or equity holders.

The Authority is managed by an Administrator appointed by an Advisory Board. The Advisory Board is made up of appointed representatives of the Town of Nantucket. The Authority's operations are primarily funded through passenger fares, contractual reimbursements and operating subsidies from Federal and State governments and the Town of Nantucket. In addition, the Authority receives Federal and State capital grants that are used to finance acquisitions of and improvements to facilities and equipment.

The Authority provides seasonal fixed route bus services to the general public and year round demand response services to the elderly and to individuals with disabilities. The operation of these services is performed by two private sector operators (the Operators). The Operators function under terms and agreements whereby they provide mass transit along such routes and according to such schedules as may be defined by the Authority.

The Authority also has a brokerage service program, whereby, the Authority contracts with various social service agencies to provide public transportation to their clients. The operation of this program is also provided by one of the Operators.

2. Summary of Significant Accounting Policies

a) Measurement Focus, Basis of Accounting and Financial Reporting Presentation – The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose government, engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation services are provided. Unearned revenue represents cash received in advance of future services.

The Authority distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing transit services to the general public. The Authority's principal operating revenue is passenger fares. Operating expenses include the cost of transit services, provided by third party vendors, maintenance, administrative and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

The Authority has adopted GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, which establishes guidance for applying standards established in Financial Accounting Standards Board ("FASB") Statements and Interpretations to the preparation of financial statements for proprietary fund activities. In accordance with GASB No. 20, the Authority observes all FASB Statements and Interpretations that were issued on or before November 30, 1989, unless they conflict with GASB Pronouncements.

b) Adoption of New Accounting Pronouncements – In June, 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The adoption of this statement did not have a material impact on the Authority's financial statements.

The GASB has issued the following statements, which require adoption subsequent to June 30, 2011, and may be applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the fiscal practices and financial reports are being evaluated.

<u>Statement No.</u>		<u>Adoption Required in Fiscal Year</u>
57	<i>OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans</i>	2012
60	<i>Accounting and Financial Reporting for Service Concession Arrangements</i>	2012
61	<i>The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34</i>	2013
62	<i>Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>	2012

c) Capital Grants – The Authority receives capital grants from the Federal Government and the Commonwealth to be used for various purposes connected with the planning, modernization and expansion of transportation service. Pursuant to GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", these grants are reflected in the accompanying statement of revenues, expenses and changes in net assets as revenue in the capital contributions category.

d) Statement of Cash Flows – For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

e) Restricted Assets and Restricted Liabilities – Restricted assets are restricted for the acquisition of capital assets, the stabilization fund and the reserve for extraordinary expense. Restricted liabilities are amounts payable from the restricted assets.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements
June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

f) Capital Assets – Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the economic useful lives of the assets. The Authority's capitalization policy is to capitalize all assets acquired with capital funds regardless of the dollar amount. Pursuant to GASB No. 51, Accounting and Financial Reporting of Intangible Assets, the Authority's intangible assets are classified as capital assets.

g) Net Assets – Net assets are reported in classifications that conform to the use of those net assets. The categories of reporting net assets are (1) amounts invested in capital assets – net of related debt, (2) amounts that are legally or statutorily restricted as to their use – net of related debt, and (3) amounts that are unrestricted.

h) 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Some of the Authority's more significant estimates relate to grant receivables and related income, capital asset impairment and certain accrued expenses. Actual results could differ from those estimates.

i) Reclassifications – Certain prior year amounts have been reclassified to conform to current year presentation.

3. Cash and Cash Equivalents

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or its agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Pursuant to GASB No. 40, custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a formal policy with regard to custodial credit risk, but generally invests its funds in deposits that are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the pledging financial institutions name. At June 30, 2011, the Authority does not have any uninsured or uncollateralized bank deposits.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements
June 30, 2011 and 2010

3. Cash and Cash Equivalents (continued)

The total amounts of Authority deposits in financial institutions, per the bank statements, at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Deposits covered by:		
Federal Depository Insurance Corporation	\$ 250,000	\$ 250,000
Collateralized with pledged securities	704,057	734,998
Total balance per banks	<u>\$ 954,057</u>	<u>\$ 984,998</u>

The composition and amount of the Authority's cash and cash equivalents fluctuates during the fiscal year. The primary reason for the fluctuation involves the timing of the proceeds of borrowings, collections of federal, state and local aid, and capital outlays made.

4. Grants

Capital Grant Funding - The Commonwealth provides funding for the Authority's capital improvement projects through its RTA Capital and Mobility Assistance Programs. The amount of Commonwealth appropriations for 2011 and 2010 were \$180,656 and \$220,646, respectively. In addition, under various sections of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), of 2005, the United States Department of Transportation approves capital grants to fund from 80% - 100% of the Authority's capital improvement projects. Federal capital appropriations under this program for 2011 and 2010 were none and \$45,113, respectively.

Further, pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA), the United States Department of Transportation approves capital grants to fund 100% of the Authority's capital improvement projects. ARRA capital appropriations for the 2011 and 2010 were \$815,334 and \$25,438, respectively.

In 2011 and 2010, the Authority also used \$92,500 and \$61,455, respectively, in private funding received from Greenhound, LLC to fund capital asset acquisitions.

Operating Grant Funding - The Authority is eligible for grants for operating assistance from the United States Department of Transportation. Pursuant to various sections of SAFETEA-LU, the federal government may fund up to 80% of the Authority's net operating expenses. During 2011 and 2010, funding under this program was \$611,255 and \$481,445, respectively.

Also in 2011, the Authority received \$82,967 in funds pursuant to the American Recovery and Reinvestment Act (ARRA). Under this program, the Federal government funds 100% of allowable net operating expenses.

The Authority also has a contract with the Commonwealth for operating assistance as provided for in the enabling legislation. The contract provides that the Commonwealth will pay the Authority a portion of its net cost of service, as defined. The amount of this contract assistance for fiscal year 2011 and 2010 was \$372,634 in each year.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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4. Grants (continued)

Operating Grant Funding (continued)

In addition, the Town of Nantucket, the sole town constituting the Authority, provided operating assistance in 2011 and 2010 of \$321,789 and \$313,940, respectively.

5. Receivable for Operating and Capital Assistance

The receivable for operating and capital assistance is disaggregated as follows:

	<u>2011</u>	<u>2010</u>
<u>Current</u>		
Operating assistance		
Commonwealth of Massachusetts		
Operating appropriations	\$ 399,215	\$ 399,215
United States Department of Transportation -		
Pass-through grants through the Commonwealth		
Operating grants		
American Recovery and Reinvestment Act	82,967	
Rural area assistance	508,547	464,745
New freedom program	13,722	16,700
Local operating assistance to be billed to		
the Towns constituting the Authority and		
paid by the Commonwealth to the Authority	415,588	399,544
Total operating assistance	1,420,039	1,280,204
Less noncurrent portion	(123,099)	(100,080)
Total current operating assistance	<u>\$ 1,296,940</u>	<u>\$ 1,180,124</u>
<u>Noncurrent</u>		
Capital assistance		
Commonwealth of Massachusetts	\$ 180,656	\$ 201,262
Pass-through grant through the Commonwealth		
American Recovery and Reinvestment Act	21,205	25,438
Total capital assistance	<u>\$ 201,861</u>	<u>\$ 226,700</u>

Noncurrent receivable for operating assistance – This receivable is due from the Commonwealth pursuant to Massachusetts General Laws, Chapter 161B. However, of this amount, \$21,595 has not been funded as yet by State Contract Assistance. This receivable is included on the accompanying statement of net assets in the noncurrent asset section in the receivable for operating assistance category.

6. Other Current Assets

The other current asset balance includes a motor vehicle parts and fuel inventory for 2011 and 2010 of approximately \$14,000 and \$12,000, respectively. This inventory is stated at the lower of cost or market on a first-in, first-out basis.

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7. Capital Assets and Depreciation

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

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Leasehold improvements				
Building	\$ 678,735	\$ 2,582	\$ -	\$ 681,317
Vehicles	3,153,499	1,069,214		4,222,713
Equipment	421,315	16,605		437,920
Intangible asset	17,800			17,800
Subtotal	<u>4,271,349</u>	<u>1,088,401</u>	<u>-</u>	<u>5,359,750</u>
Accumulated depreciation	<u>2,348,484</u>	<u>398,737</u>		<u>2,747,221</u>
Net depreciable and net capital assets	<u>\$ 1,922,865</u>	<u>\$ 689,664</u>	<u>\$ -</u>	<u>\$ 2,612,529</u>

The capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Leasehold improvements				
Building	\$ 663,735	\$ 15,000	\$ -	\$ 678,735
Vehicles	3,070,020	310,935	227,456	3,153,499
Equipment	500,049	26,717	105,451	421,315
Intangible asset	17,800			17,800
Subtotal	<u>4,251,604</u>	<u>352,652</u>	<u>332,907</u>	<u>4,271,349</u>
Accumulated depreciation	<u>2,359,198</u>	<u>317,419</u>	<u>328,133</u>	<u>2,348,484</u>
Net depreciable and net capital assets	<u>\$ 1,892,406</u>	<u>\$ 35,233</u>	<u>\$ 4,774</u>	<u>\$ 1,922,865</u>

Depreciation expense for 2011 and 2010 was \$398,733 and \$317,419, respectively.

8. Accounts Payable and Accrued Expense

The accounts payable and accrued expense balance is disaggregated as follows:

	2011	2010
Payable to general vendors	\$ 247,948	\$ 153,270
Accrued salaries and benefits	8,078	9,108
Accrued other	507	375
	<u>\$ 256,533</u>	<u>\$ 162,753</u>

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9. Revenue Anticipation Notes

The Authority is subsidized by the Commonwealth for its annual "Net Cost of Service" as defined in the enabling legislation. These subsidies are funded subsequent to the year in which the costs are incurred. Therefore, the Authority issues revenue anticipation notes to cover cash flow deficiencies until funding is received.

During the years ended June 30, 2011 and 2010, the following changes occurred in the Authority's revenue anticipation notes (RANs):

	2011	2010
Beginning balance	\$ 1,806,655	\$ 1,605,776
New notes issued	1,906,726	1,806,655
Notes retired	<u>(1,806,767)</u>	<u>(1,605,776)</u>
Ending balance	<u>\$ 1,906,614</u>	<u>\$ 1,806,655</u>

The RAN outstanding at June 30, 2011, bears interest at 1.60%, is due in June, 2012 and is fully guaranteed by the Commonwealth of Massachusetts.

The RAN is expected to be refinanced upon maturity with generally the same terms as the note currently outstanding. Therefore, it is short-term debt expected to be refinanced and is included in the accompanying statement of net assets as a noncurrent liability. The above balances are inclusive of bond premium activity.

10. Restricted Net Assets

Restricted net assets are comprised of the total restricted net assets less liabilities payable from restricted net assets. The following delineates the expendable versus nonexpendable restricted net assets for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Expendable		
Restricted for capital assets	\$ 13,447	\$ -
Nonexpendable		
Restricted by enabling legislation		
Stabilization fund	81,513	76,976
Reserve for extraordinary expense	<u>57,023</u>	<u>57,023</u>
	<u>138,536</u>	<u>133,999</u>
	<u>\$ 151,983</u>	<u>\$ 133,999</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY
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11. Leases

Operating lease

The Authority has two noncancelable operating lease commitments at June 30, 2011, with terms in excess of one year.

The future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 29,451
2013	19,034
2014	19,034
2015	19,034
2016	19,034
2017 - 2021	95,170
2020 - 2028	128,479
	<u>\$ 329,236</u>

Aggregate rental expense was \$44,034 for both 2011 and 2010.

12. Employees' Retirement Benefits

Pension

The Authority provides retirement benefits to employees through the Barnstable County Retirement Association (The Plan). The Plan operates a contributory, multi-employer, cost sharing, defined benefit pension plan. The Plan covers all employees and provides retirement, disability and death benefits.

The Plan is a member of the Massachusetts Contributory Retirement System and is governed by Massachusetts General Laws, Chapter 32. Oversight of the System is provided by the Board of Retirement. The Plan does not issue a publicly available financial report.

Plan members are required to contribute 5% to 11% of their covered compensation and the Authority is required to contribute an actuarially determined amount. The Authority's current year contribution to the Plan was \$23,762. This represented .06% of Plan-wide employer assessments. The contribution requirements of plan members and the Authority are established and may be amended by Massachusetts General Laws. The Authority's contributions to the Plan for the years ending June 30, 2010 and 2009 were \$19,598 and \$18,137, respectively (representing .05% of Plan-wide employer contributions in both years). The above contributions were equal to the Authority's required contributions for each year.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Notes to Financial Statements
June 30, 2011 and 2010

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Plan Description – The Authority administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Authority's group health insurance plan, which covers both active and retired members. Benefit provisions are established by the Authority's Advisory Board. As of June 30, 2010, the actuarial valuation date, two employees and no retirees meet eligibility requirements. The Plan does not issue separate stand-alone financial statements.

Funding policy – Contribution requirements are determined by the Authority's Advisory Board. For fiscal years 2011 and 2010, the Authority did not make contributions to the plan, however, it did accrue the OPEB obligation. So far, the Authority does not have any eligible retirees. When retirees do exist, the Plan and eligible retirees receiving benefits will contribute premium costs as follows:

	<u>Plan</u>	<u>Retirees</u>
Master Medical	80%	20%
PPO	90	10
Medex	90	10

Annual OPEB Cost and Net OPEB Obligation – The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has elected to calculate the ARC and related information using the alternate measurement method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on actuarial valuation as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 9,886	\$ 9,886
Interest on net OPEB obligation and ARC adjustment		
Annual OPEB cost (expense)	9,886	9,886
Contributions made	-	-
Increase in net OPEB obligation	9,886	9,886
Net OPEB obligation - beginning of year	31,886	22,000
Net OPEB obligation - end of year	<u>\$ 41,772</u>	<u>\$ 31,886</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and 2010 was as follows:

	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
	<u>OPEB Cost</u>	<u>Annual OPEB</u>	<u>OPEB</u>
		<u>Cost Contributed</u>	<u>Obligation</u>
June 30, 2010	\$ 9,886	0%	\$31,886
June 30, 2011	\$ 9,886	0%	\$41,772

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2011 and 2010

12. Employees' Retirement Benefits (continued)

Post Employment Healthcare Benefits (continued)

Funded Status and Funding Progress – The funded status of the plan as of June 30, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 54,852
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 54,852</u>
 Funded ratio (actuarial value of plan assets/AAL)	 0.0%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the alternative method was used. The actuarial value of assets was not determined as the Authority has not advance-funded its obligation. The actuarial assumptions included a .5% investment rate of return and an annual health care cost trend rate of 8.0% initially, reduced by 1.0% to .8% per year to an ultimate rate of 4.7% after nine years. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 was 29 years.

13. Commitments and Contingencies

- a) Federal and State Grants - The Authority has received capital and operating financial assistance from Federal and State agencies in the form of grants. Expenditure of funds under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2011 and 2010

13. Commitments and Contingencies (continued)

- b) 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; natural disasters; and workers compensation claims. The Authority carries commercial insurance to cover these potential losses. Settlements have not exceeded coverages for each of the past three fiscal years.

The Authority's workers compensation coverage is insured under a retrospectively rated policy. In the opinion of management, any audit adjustment made by the insurance carrier will not be material to the accompanying financial statements.

14. Related Party Transactions

Transactions with the Commonwealth (Primary Government) are as follows:

- a. Receivables for operating and capital assistance are delineated in Note 5.
b. Actual operating and capital assistance for 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Operating assistance		
Commonwealth appropriations	\$ 372,634	\$ 372,634
Federal pass-through grants	694,222	481,445
Local (Town) assistance	321,789	313,940
Capital assistance		
Commonwealth appropriations	180,656	220,646
Federal pass-through grants	<u>815,334</u>	<u>70,551</u>
Total related party transactions	<u>\$ 2,384,635</u>	<u>\$ 1,459,216</u>

Transactions with the Town of Nantucket (Member Community) are as follows:

- a. Receivable for local assistance is delineated in Note 5.
b. The lessor on the leases described in Note 12 is the Town of Nantucket both directly or indirectly through the Nantucket Memorial Airport Commission.

15. Reserve for Extraordinary Expense

In accordance with Section 6 of Chapter 161B of the General Laws of the Commonwealth, the Authority is allowed to establish a reserve account for the purpose of meeting the cost of extraordinary expenses in an amount not to exceed three percent of the prior year's local assessment. Any balance in the reserve account at the end of the fiscal year may be carried forward into the next fiscal year; provided, however, that the aggregate amount in the account does not exceed twenty percent of the prior year's local assessment. In fiscal year 2011, the Authority did not increase the reserve for extraordinary expense. The aggregate reserve balance at June 30, 2011 was \$57,023.

The reserve for extraordinary expense is included in the accompanying statement of net assets in the Net assets category, restricted account.

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Required Supplementary Information - Retiree Health Plan Funding Progress
June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b - a)	(a/b)	(c)	([b - a] / c)
7/1/2007	\$ -	\$ 45,000	\$ 45,000	0.0%	\$ 134,118	33.6%
6/30/2010	\$ -	\$ 54,852	\$ 54,852	0.0%	\$ 132,720	41.3%

NANTUCKET REGIONAL TRANSIT AUTHORITY
(a Component Unit of the Commonwealth of Massachusetts)

Schedule 1

STATEMENT OF NET COST OF SERVICE
FOR THE YEAR ENDED JUNE 30, 2011
FORM 1

	Rural Area <u>Service</u>
I. Operating Costs	
A. RTA administrative costs (excluding depreciation and amortization)	\$ 116,313
B. Purchased services	
Fixed route	1,375,049
Demand response	261,454
Brokerage services	3,140
C. Debt Service	20,290
Total Operating Costs	<u>1,776,246</u>
II. Federal Operating Assistance	
A. FTA operating and administrative	611,255
B. Other federal	82,967
Total Federal Assistance	<u>694,222</u>
III. Revenues	
A. Farebox Revenue	365,873
B. Brokerage service reimbursement	3,140
C. Other third party reimbursement	12,844
D. Other Revenues	
1. Advertising	1,080
2. Parking	
3. Sale of capital assets	
4. Interest income	2,569
5. Miscellaneous	2,095
Total Other Revenues	<u>5,744</u>
IV. Net Operating Deficit (I-II-III)	694,423
V. Adjustments	
A. Extraordinary expenses (not to exceed 3% of prior year's local assessment)	
B. Stabilization fund	
C. Current expense	<u>-</u>
VI. Net Cost of Service (IV+V)	694,423
VII. Net Cost of Service Funding	
A. Local Assessments	321,789
B. State contract assistance	372,634
1. LESS: Adjustment for exceeding 2.5% cap on prior year net operating expenses	<u>-</u>
C. State Contract Assistance to be funded	372,634
1. LESS: Partial payment made by MassDOT after July 1	<u>(354,002)</u>
D. Balance requested from the State	\$ 18,632
VIII. Unreimbursed Deficit (VI-VIIA-VIIC)	-

NANTUCKET REGIONAL TRANSIT AUTHORITY
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Schedule 2

Net Cost of Service-Calculation Worksheet and Supplementary Data

For the Year Ended June 30, 2011
Form 2

I. Proof calculations and other required information:

A. Prior year operating expenses, net of fully funded costs brokerage service	\$ 1,467,165
Allowable percentage increase	2.5%
Prior year, net operating expenses times 2.5%	<u>36,679</u>
Current year, allowable net operating expense	1,503,844
Plus adjustments:	
ADA expenses in excess of the 2.5% cap	130,153
Brokerage funded costs	3,140
New service costs	
Other: (explain) Other fully funded	139,109
Total allowable operating costs (maximum allowed on Form 1, Line 1)	<u>1,776,246</u>
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	
Prior year local assessment	<u>313,940</u>
Percentage of extraordinary to prior local assessments (not to exceed 3%)	0.0%
C. Aggregate amount of reserve account at June 30.	57,023
Prior year local assessment	<u>313,940</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)	18.1%
D. State the management fee paid to major service providers as a percentage of operating costs incurred.	5.1%
E. State the percentage of benefits paid by RTA on behalf of RTA employees for:	
1. Group life and accidental death insurance	50.0%
2. Group health insurance	90.0%
F. State the brokerage service contracts costs as a percentage of total operating costs.	0.18%
G. Stabilization Fund	
1. Current year	
2. Aggregate balance	81,513