

**NANTUCKET REGIONAL TRANSIT AUTHORITY**  
(a component Unit of the Massachusetts Department of Transportation)

Basic Financial Statements, Supplementary Data  
For the Year Ended June 30, 2013

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

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NANTUCKET REGIONAL TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 by \$3,195,000.
- \* The Authority's total net position increased by \$519,000 during the current year.
- \* The total operating revenue increased from \$382,000 in fiscal year 2012 to \$391,000 in fiscal year 2013, a \$9,000 increase.
- \* The operating expenses increased from \$2,029,000 in fiscal year 2012 to \$2,069,000 in fiscal year 2013, an \$40,000 increase.
- \* The Authority expended \$970,000 for capital assets. Of this amount, \$944,000 was expended for buses, vans, and related equipment. These acquisitions were funded by capital grants from the Federal government and the Massachusetts Department of Transportation (MassDOT).

**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 Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and the Notes to the Financial Statements.

The statement of net position presents information on all of the Authority's assets and outflows of resources and liabilities and inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position presents information showing how the assets changed during the fiscal year. All changes in net position 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.

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**Financial Position Analysis**

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

Statement of Net Position  
(000 omitted)

	2013	2012	Percentage Change
Current assets	\$ 2,152	\$ 2,238	-4%
Capital assets, net	2,884	2,371	22%
Other noncurrent assets	228	548	-58%
Total assets	<u>5,264</u>	<u>5,157</u>	<u>2%</u>
Noncurrent liabilities	1,885	2,348	-20%
Current liabilities	184	133	38%
Total liabilities	<u>2,069</u>	<u>2,481</u>	<u>-17%</u>
Net position			
Invested in capital assets	2,884	2,371	22%
Restricted	151	158	-4%
Unrestricted	160	147	9%
Total net position	<u>\$ 3,195</u>	<u>\$ 2,676</u>	<u>19%</u>

Net position may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$3,195,000 at the close of the fiscal year.

By far the largest portion of the Authority's net position \$2,884,000 (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 position \$151,000 (5 percent) represents resources that are subject to external restrictions on how they may be used. The bulk of the restricted net position (5% of total net position) represents the reserve for extraordinary expense and the stabilization fund.

The remaining balance of unrestricted net position, \$160,000 (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 position.

The Authority's net position increased by \$519,000 during the current fiscal year.

The Authority's total debt decreased by \$412,000 (17%) during the current year. This decrease was caused primarily by a decrease in Revenue Anticipation notes of \$302,000 and a decrease of \$110,000 in accounts payable and accrued expense.

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**Operations Analysis**

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

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

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Operating revenues			
Transportation services	\$ 391	\$ 382	2%
Operating expenses			
Cost of services, maintenance and administration	1,625	1,595	2%
Depreciation	444	434	2%
	<u>2,069</u>	<u>2,029</u>	<u>2%</u>
Operating loss	<u>(1,678)</u>	<u>(1,647)</u>	<u>2%</u>
Nonoperating revenues and (expenses)			
Operating assistance	1,252	1,235	1%
Other nonoperating	(25)	(42)	-40%
	<u>1,227</u>	<u>1,193</u>	<u>3%</u>
Loss before capital contribution	<u>(451)</u>	<u>(454)</u>	<u>-1%</u>
Capital contributions	970	211	360%
	<u>970</u>	<u>211</u>	<u>360%</u>
Increase (decrease) in net position	519	(243)	-314%
Net position			
Beginning of year	2,676	2,919	-8%
End of year	<u>\$ 3,195</u>	<u>\$ 2,676</u>	<u>19%</u>

The Authority's operating loss increased by \$31,000 from the prior year.

Operating revenues increased \$9,000 (2%).

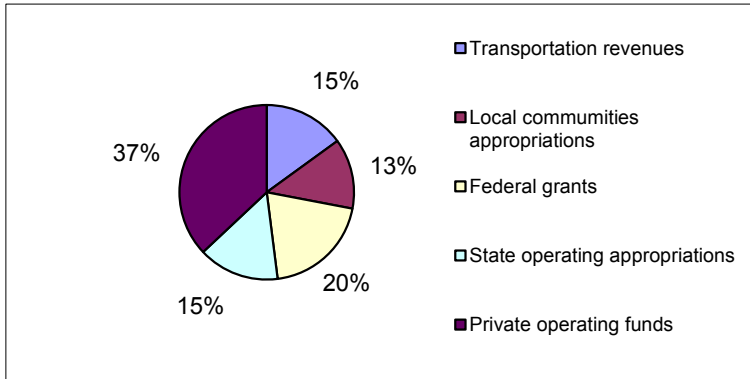
Operating expenses increased by \$40,000 (2%).

There was a increase in the "increase (decrease) in net position" of \$762,000, due primarily to more federal operating and capital assistance.

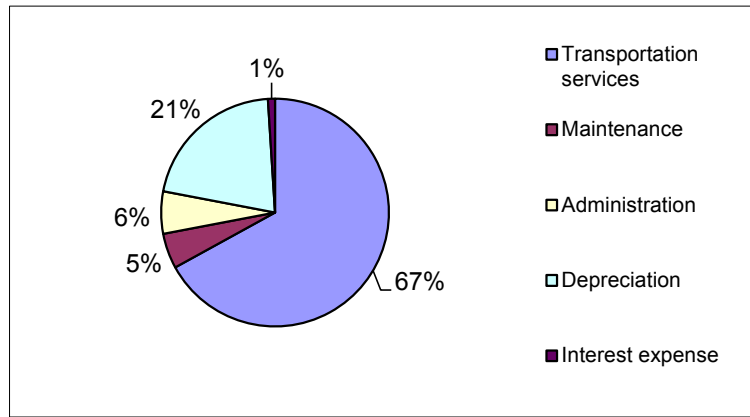
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The revenues and expenses by source are delineated in the following graphs:

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>2013</u>	<u>2012</u>
Working Capital	\$ 1,968,000	\$ 2,105,000
Current ratio	12:1	17:1

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

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

	<u>2013</u>	<u>2012</u>
Liabilities to net assets	65%	93%

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**Capital and Debt Administration**

Capital Assets

The Authority's investment in capital assets as of June 30, 2013 amounted to \$2,884,000, net of depreciation. The investment in capital assets includes Building and structures, vehicles, equipment and intangible assets. The total net increase in capital assets for the current year was \$513,000 or a 22% increase.

During the current year, the most significant capital asset event was the acquisition of rolling stock in the amount of \$944,000.

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

	<u>2013</u>	<u>2012</u>
Building and structures	\$ 683	\$ 685
Vehicles	4,713	3,944
Equipment	409	440
Intangible assets	18	18
	<u>5,823</u>	<u>5,087</u>
Less accumulated depreciation	(2,939)	(2,716)
	<u><u>\$ 2,884</u></u>	<u><u>\$ 2,371</u></u>

Revenue Anticipation Notes

The Authority had revenue anticipation notes of \$1,808,000 and \$2,110,000 at the end of 2013 and 2012, 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 MassDOT and 46% by assessments to the member community. This operating assistance is funded a year in arrears by the State (the Authority's fiscal year 2013 assistance will be included in the Commonwealth's fiscal 2014 budget).

Demand for the Authority's services is mainly affected by the overall economy, seasonality and weather conditions.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Farebox revenue	\$ 366,000	\$ 374,000	\$ 384,000
Other revenue	9,000	10,000	7,000

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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 financial statements of the Nantucket Regional Transit Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v and the schedule of funding progress on page 19 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, included in the accompanying schedules on pages 20 through 22, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such

information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Bruce D. Norling, CPA, P.C.*

August 12, 2013

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

Statement of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 573,693	\$ 382,814
Receivable for operating assistance	1,429,303	1,707,573
Other current assets	149,034	147,598
Total current assets	<u>2,152,030</u>	<u>2,237,985</u>
Noncurrent assets		
Restricted assets		
Cash and cash equivalents	222,197	197,682
Receivable capital assistance	6,380	198,393
Total restricted assets	<u>228,577</u>	<u>396,075</u>
Receivable for operating assistance		152,843
Capital assets, net	<u>2,883,633</u>	<u>2,370,618</u>
Total noncurrent assets	<u>3,112,210</u>	<u>2,919,536</u>
Total assets	<u>5,264,240</u>	<u>5,157,521</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expense	<u>184,173</u>	<u>135,845</u>
Total current liabilities	<u>184,173</u>	<u>135,845</u>
Noncurrent liabilities		
Liabilities payable from restricted assets		
Accounts payable and accrued expense		179,468
Other postemployment benefits	77,492	58,851
Revenue anticipation notes	<u>1,807,893</u>	<u>2,110,280</u>
Total noncurrent liabilities	<u>1,885,385</u>	<u>2,348,599</u>
Total liabilities	<u>2,069,558</u>	<u>2,484,444</u>
NET POSITION		
Invested in capital assets	2,883,633	2,370,618
Restricted	151,085	157,756
Unrestricted	159,964	147,703
Total net position	<u>\$ 3,194,682</u>	<u>\$ 2,676,077</u>

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

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Transportation services	\$ 391,536	\$ 382,264
Operating expenses		
Transportation service	1,391,333	1,361,858
Maintenance	114,792	116,590
General and administration	119,498	116,740
	<u>1,625,623</u>	<u>1,595,188</u>
Depreciation expense	444,153	433,479
	<u>2,069,776</u>	<u>2,028,667</u>
Operating loss	(1,678,240)	(1,646,403)
Nonoperating revenues and (expenses)		
Operating assistance grants		
Federal	512,619	461,500
Commonwealth of Massachusetts	394,651	416,669
Local	338,080	329,834
Private Funding	7,006	26,640
Interest expense	(12,679)	(21,720)
Loss on disposal of equipment	(12,434)	(20,159)
	<u>1,227,243</u>	<u>1,192,764</u>
Loss before capital grants	(450,997)	(453,639)
Capital grants		
Commonwealth of Massachusetts capital assistance grants	206,000	206,000
Federal	763,602	4,548
	<u>969,602</u>	<u>210,548</u>
Increase (decrease) in net position	518,605	(243,091)
Net position, beginning of year	<u>2,676,077</u>	<u>2,919,168</u>
Net position, end of year	<u>\$ 3,194,682</u>	<u>\$ 2,676,077</u>

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

Statement of Cash Flows

Year Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Transportation services	\$ 391,536	\$ 382,264
Payments to vendors and suppliers	(1,349,815)	(1,514,587)
Payments to employees	(166,821)	(163,956)
Payments of fringe	(50,134)	(47,171)
Net cash used in operations	<u>(1,175,234)</u>	<u>(1,343,450)</u>
Cash flows from noncapital financing activities		
Proceeds from revenue anticipation notes	1,808,095	2,110,513
Repayment of revenue anticipation notes	(2,100,000)	(1,900,000)
Operating assistance grants	1,676,463	767,626
Private funding	16,819	16,818
Interest on notes	(26,177)	(30,230)
Net cash provided by noncapital financing activities	<u>1,375,200</u>	<u>964,727</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,149,070)	(222,528)
Proceeds from sale of capital assets		1,855
Capital contributions		
United States Department of Transportation	762,858	21,205
Massachusetts Department of Transportation capital appropriations	398,757	192,811
Net cash (used in) provided by capital and related financing activities	<u>12,545</u>	<u>(6,657)</u>
Cash flows from investing activities		
Interest income	2,883	1,739
Net cash provided by investing activities	<u>2,883</u>	<u>1,739</u>
Net increase (decrease) in cash and cash equivalents	215,394	(383,641)
Cash and cash equivalents at beginning of year	580,496	964,137
Cash and cash equivalents at end of year	<u>\$ 795,890</u>	<u>\$ 580,496</u>
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (1,678,240)	\$ (1,646,403)
Adjustments to reconcile the operating loss to net cash used in operating activities:		
Depreciation expense	444,153	433,479
Other		
Changes in assets and liabilities:		
Other assets	(1,436)	(22,393)
Accounts payable and accrued expense	60,289	(108,133)
Net cash used in operations	<u>\$ (1,175,234)</u>	<u>\$ (1,343,450)</u>
Supplemental disclosures of noncash transactions		
At June 30, 2013 and 2012, the Authority had capital expenditures that were included in accounts payable	<u>\$</u>	<u>\$ 179,468</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY  
(a Component Unit of the Massachusetts Department of Transportation)  
Notes to Financial Statements  
June 30, 2013 and 2012

1. The Reporting Entity

The Nantucket Regional Transit Authority (the Authority) is a component unit of the Massachusetts Department of Transportation (MassDOT) and MassDOT 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 a private sector operator (the Operator). The Operator functions 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 the Operator.

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 services in connection with the Authority's principal ongoing operations. 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  
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Notes to Financial Statements  
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

a) Measurement Focus, Basis of Accounting and Financial Reporting Presentation (continued)

The Authority has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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 Statement No. 62, the Authority complies with and 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, 2012, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 34*. This Statement 1) modifies certain requirements for inclusion of component units in the financial reporting entity, 2) amends the criteria for reporting component units as if they were part of the primary government (that is blending) in certain circumstances, 3) provides guidance for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting and 4) clarifies the reporting of equity interests in legally separate organizations. The adoption of this statement did not have a material impact on the Authority's financial statements.

In June, 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. 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, 2013 and are applicable to the Authority. The Authority has not yet adopted these statements, and the implication on the Authority's fiscal practices and financial reports is being evaluated.



NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Notes to Financial Statements  
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

b) Adoption of New Accounting Pronouncements (continued)

<u>Statement No.</u>		<u>Adoption Required in Fiscal Year</u>
65	<i>Items previously reported as Assets and Liabilities</i>	2014
66	<i>Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62</i>	2014
67	<i>Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25</i>	2014
68	<i>Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27</i>	2015
69	<i>Government Combinations and Disposals of Government Operations</i>	2015

c) Capital Grants – The Authority receives capital grants from various governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation facilities and equipment. Capital grants are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

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.

f) Capital Assets – Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the assets. The Authority's capitalization policy is to capitalize all assets acquired with capital funds regardless of the dollar amount. The estimated service lives are as follows:

	<u>Years</u>
Building and structures	15 – 40
Vehicles	4 – 10
Equipment	5 – 7
Intangible assets	5

g) Net Position - Net position is the residual of all other elements presented in a statement of net position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The categories of reporting net position 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.

NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Notes to Financial Statements  
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

i) Restricted Cash and Investment Accounts – Certain cash and investments are segregated from operating cash due to certain internal or external restrictions as follows:

- Stabilization and contingency reserve accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent internally restricted funds held for capital maintenance and other expenses.

j) Postemployment Benefits – Postemployment benefits, primarily healthcare, are recognized on an accrual basis. The accrual is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that the Authority does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position over time.

k) Available Unrestricted Resources – The Authority's policy is to utilize available unrestricted resources prior to restricted sources.

l) 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 fully FDIC insured or are collateralized with securities held by the pledging financial institution's trust department or agent in the pledging financial institutions name. At June 30, 2013, 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, 2013 and 2012

3. Cash and Cash Equivalents (continued)

The total amounts of Authority deposits in financial institutions, per the bank statements, at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Balance per banks	\$ 823,085	\$ 626,348
Deposits covered by:		
Federal Depository Insurance Corporation	(250,000)	(250,000)
Collateralized with pledged securities	<u>(573,085)</u>	<u>(376,348)</u>
Total uninsured and uncollateralized deposits	<u>\$ -</u>	<u>\$ -</u>

Cash and cash equivalents reported in the accompanying statement of net position as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current asset - cash and cash equivalents	\$ 573,693	\$ 382,814
Restricted assets - cash and cash equivalents	<u>222,197</u>	<u>197,682</u>
	<u>\$ 795,890</u>	<u>\$ 580,496</u>

4. Grants

The Federal government provides both operating and capital funding pursuant to the various sections of the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), of 2005. Activities that previously received dedicated funding from SAFETEA-LU are being replaced by funding from new legislation, namely, the Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) Act, of 2012.

Further, MassDOT and the Town of Nantucket provide the local share of both operating and capital funding.

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5. Receivable for Operating and Capital Assistance

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

	<u>2013</u>	<u>2012</u>
<u>Current</u>		
Operating assistance		
Commonwealth of Massachusetts		
Operating appropriations	\$ 421,231	\$ 443,250
United States Department of Transportation -		
Pass-through grants through the Commonwealth		
Operating grants		
Rural area assistance	556,422	983,769
Local operating assistance to be billed to		
the Towns constituting the Authority and		
paid by the Commonwealth to the Authority	451,650	433,397
Total operating assistance	1,429,303	1,860,416
Less noncurrent portion		(152,843)
Total current operating assistance	<u>\$ 1,429,303</u>	<u>\$ 1,707,573</u>
<u>Noncurrent</u>		
Capital assistance		
Commonwealth of Massachusetts	\$ 1,088	\$ 193,845
Pass-through grant through the Commonwealth		
American Recovery and Reinvestment Act	5,292	4,548
Total capital assistance	<u>\$ 6,380</u>	<u>\$ 198,393</u>

Current receivable for operating assistance – The receivable for operating assistance is inclusive of \$70,384 that has not yet been appropriated by MassDOT. Management is pursuing steps to obtain this funding and believes it will be funded in fiscal year 2014. This receivable is included on the accompanying statement of net position in the current 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 2013 and 2012 of approximately \$11,000 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, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and structures	\$ 684,797	\$ 4,393	\$ 5,569	\$ 683,621
Vehicles	3,944,650	944,478	176,350	4,712,778
Equipment	439,978	20,731	51,788	408,921
Intangible asset	17,800			17,800
Subtotal	5,087,225	969,602	233,707	5,823,120
Accumulated depreciation	2,716,607	444,153	221,273	2,939,487
Net depreciable and net capital assets	\$ 2,370,618	\$ 525,449	\$ 12,434	\$ 2,883,633

The capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Depreciable capital assets				
Building and structures	\$ 681,317	\$ 3,480	\$ -	\$ 684,797
Vehicles	4,222,713	208,044	486,107	3,944,650
Equipment	437,920	2,058		439,978
Intangible asset	17,800			17,800
Subtotal	5,359,750	213,582	486,107	5,087,225
Accumulated depreciation	2,747,221	433,479	464,093	2,716,607
Net depreciable and net capital assets	\$ 2,612,529	\$ (219,897)	\$ 22,014	\$ 2,370,618

Depreciation expense for 2013 and 2012 was \$444,153 and \$433,479, respectively.

8. Accounts Payable and Accrued Expense

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

	2013	2012
Payable to general vendors	\$ 161,474	\$ 121,450
Accrued salaries and benefits	10,987	9,363
Accrued other	11,712	2,032
	<u>\$ 184,173</u>	<u>\$ 132,845</u>

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9. Revenue Anticipation Notes

The Authority is subsidized by the Commonwealth of Massachusetts 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, 2013 and 2012, the following changes occurred in the Authority's revenue anticipation notes (RANs):

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 2,110,280	\$ 1,906,614
New notes issued	1,808,095	2,110,513
Notes retired	<u>(2,110,482)</u>	<u>(1,906,847)</u>
Ending balance	<u>\$ 1,807,893</u>	<u>\$ 2,110,280</u>

The RAN outstanding at June 30, 2013, bears interest at 1.00%, is due in June, 2014 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 position as a noncurrent liability. The above balances are inclusive of bond premium activity.

10. Restricted Net Position

Restricted net position is comprised of the total restricted net assets less liabilities payable from restricted net assets. The following delineates the expendable versus nonexpendable restricted net position for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Expendable		
Restricted for capital assets	\$ 6,380	\$ 18,925
Nonexpendable		
Restricted by enabling legislation		
Stabilization fund	82,091	81,808
Reserve for extraordinary expense	<u>62,614</u>	<u>57,023</u>
	<u>144,705</u>	<u>138,831</u>
	<u>\$ 151,085</u>	<u>\$ 157,756</u>

NANTUCKET REGIONAL TRANSIT AUTHORITY  
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June 30, 2013 and 2012

11. Leases

Operating lease

At June 30, 2013, the Authority has a noncancelable operating lease commitment with terms in excess of one year.

The future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 19,034
2015	19,034
2016	19,034
2017	19,034
2018	19,034
2019 - 2023	95,170
2024 - 2028	99,929
	<u>\$ 290,269</u>

Aggregate rental expense was \$44,222 and \$44,034 for 2013 and 2012, respectively. The lessor related to this rental expense is the Town of Nantucket, a related party, Note 14.

12. Employees' Retirement Benefits

Pension

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

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 a five person Retirement Board. The Plan issues a publicly unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the Plan located at 750 Attucks Lane, Hyannis, MA 02601.

Plan members are required to pay into the Plan 5% to 11% of their covered compensation. The Authority is required to pay into the Plan its share of the remaining Plan wide actuarially determined contribution. This contribution is apportioned among employers based on active current payroll. The contribution requirements of plan members and the Authority are established and may be amended by Massachusetts General Laws, Chapter 32.

The Authority's current year contribution to the Plan was \$26,476 and represents .06% of Plan wide employer contributions. The Authority's contributions to the Plan for the years ending June 30, 2012 and 2011 were \$24,372 and \$23,762, respectively, representing .06% of Plan wide employer contributions in each year. 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, 2013 and 2012

12. Employees' Retirement Benefits (continued)

Other Postemployment Benefits (OPEB)

*Plan Description* – In addition to pension benefits, the Authority provides postemployment healthcare benefits for eligible employees who render at least 10 years of service and attain age 55 or 20 years of service at any age, while in service, until the employee is eligible for Medicare. The benefits, benefit level, employee contributions, and employer contributions are governed by the Authority. As of the actuarial date, 2 active employees and 0 retirees meet eligibility requirements. The plan does not issue separate stand-alone financial statements.

*Benefits Provided* – Medical coverage, excluding dental, under the group health insurance plan for regular full-time employees will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pay 10% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pay 100% of the enrollment costs as established annually by the Plan administrator.

*Funding policy* – The retired employee must pay 10% of the enrollment cost (the "working rate") as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

*Annual OPEB Cost and Net OPEB Obligation* – The Authority's annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years. The components of the Authority's annual OPEB cost for the years ended June 30, 2013 and 2012, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on an actuarial valuation as of June 30, 2010 are as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 17,226	\$ 16,518
Interest on net OPEB obligation and ARC adjustment	<u>1,415</u>	<u>561</u>
Annual OPEB cost	18,641	17,079
Contributions made	<u>-</u>	<u>-</u>
Increase in net OPEB obligation	18,641	17,079
Net OPEB obligation - beginning of year	<u>58,851</u>	<u>41,772</u>
Net OPEB obligation - end of year	<u><u>\$ 77,492</u></u>	<u><u>\$ 58,851</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012 and 2011 was as follows:

	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2011	\$ 9,886	0%	\$41,772
June 30, 2012	\$17,079	0%	\$58,851
June 30, 2013	\$18,641	0%	\$77,492



NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Notes to Financial Statements  
June 30, 2013 and 2012

12. Employees' Retirement Benefits (continued)

Other Postemployment Benefits (OPEB) (continued)

*Funded Status and Funding Progress* – The funded status of the plan as of June 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 188,063
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 188,063</u>
 Funded ratio (actuarial value of plan assets/AAL)	 0.0%
 Covered payroll (active plan members)	 <u>\$ 132,720</u>
 UAAL as a percentage of covered payroll	 <u>141.7%</u>

Actuarial valuations of an ongoing plan involve 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.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority 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 actuarial methods and assumptions used include techniques that are designed to reduce 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 entry age normal cost 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 10.0%, initially, reduced by .75% for six years and by .5% for one year to an ultimate level of 5% per year. Both rates include a 4.5% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

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  
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Notes to Financial Statements  
June 30, 2013 and 2012

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; and natural disasters. 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 MassDOT and the Commonwealth of Massachusetts are as follows:

- a. Receivables for operating and capital assistance are delineated in Note 5.  
b. Actual operating and capital assistance for 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Operating assistance		
MassDOT appropriations	\$ 394,651	\$ 416,669
Federal pass-through grants	512,619	461,500
Local (Town) assistance	338,080	329,834
Capital assistance		
MassDOT appropriations	206,000	206,000
Federal pass-through grants	<u>763,602</u>	<u>4,548</u>
Total related party transactions	<u>\$ 2,214,952</u>	<u>\$ 1,418,551</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 lease and the rental income described in Note 11 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. The increase in the reserve for 2013 and 2012 was \$5,591 and none, respectively. The aggregate reserve balance at June 30, 2013 and 2012 was \$62,614 and \$57,023, respectively.

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

NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Required Supplementary Information (Unaudited)  
Schedule of Funding Progress  
Other Postemployment Benefit Plan  
For the years ended June 30, 2010 and 2007

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%
6/30/2010*	\$ -	\$ 188,063	\$ 188,063	0.0%	\$ 132,720	141.7%

\* - Prior years determined by the Authority using the alternative method permitted by GASB

NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Schedule 1

STATEMENT OF NET COST OF SERVICE  
FOR THE YEAR ENDED JUNE 30, 2013  
FORM 1

	<u>Rural Area Service</u>
I. Operating Costs	
A. RTA administrative costs (excluding depreciation and amortization)	\$ 119,498
B. Purchased services	
Fixed route	1,248,396
Demand response	254,693
Brokerage services	3,035
C. Debt Service	15,562
Total Operating Costs	<u>1,641,184</u>
II. Federal Operating Assistance	
A. FTA operating and administrative	512,619
B. Other federal	
Total Federal Assistance	<u>512,619</u>
III. Revenues	
A. Farebox Revenue	384,483
B. Brokerage service reimbursement	3,035
C. Other third party reimbursement	7,006
D. Other Revenues	
1. Advertising	675
2. Parking	
3. Sale of capital assets	
4. Interest income	2,883
5. Miscellaneous	3,343
Total Other Revenues	<u>6,901</u>
IV. Net Operating Deficit (I-II-III)	727,140
V. Adjustments	
A. Extraordinary expenses (not to exceed 3% of prior year's local assessment)	5,591
B. Stabilization fund	
C. Current expense	
Total Adjustments	<u>5,591</u>
VI. Net Cost of Service (IV+V)	732,731
VII. Net Cost of Service Funding	
A. Local Assessments	338,080
B. State contract assistance	394,651
1. LESS: Adjustment for exceeding 2.5% cap on prior year net operating expenses	
C. State Contract Assistance to be funded	394,651
1. LESS: Partial payment made by MassDOT after July 1	<u>(374,918)</u>
D. Balance requested from the State	\$ 19,733
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, 2013  
Form 2

I. Proof calculations and other required information:

A. Prior year operating expenses, net of fully funded costs brokerage service	\$ 1,614,918
Allowable percentage increase	<u>2.5%</u>
Prior year, net operating expenses times 2.5%	40,373
Current year, allowable net operating expense	1,655,291
Plus adjustments:	
ADA expenses in excess of the 2.5% cap	
Brokerage funded costs	3,035
New service costs	
Other: (explain) Other fully funded	
Amount under 2.5% cap	<u>(17,142)</u>
Total allowable operating costs (maximum allowed on Form 1, Line 1)	1,641,184
B. Amount of extraordinary expenses (See V. Adjustments, Form 1)	5,591
Prior year local assessment	<u>329,834</u>
Percentage of extraordinary expense to prior local assessment (not to exceed 3%)	1.7%
C. Aggregate amount of reserve account at June 30.	62,614
Prior year local assessment	<u>329,834</u>
Percentage of reserve account to prior local assessment (not to exceed 20%)	19.0%
D. State the management fee paid to major service providers as a percentage of operating costs incurred.	6.0%
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.	0.20%
G. Stabilization Fund	
1. Current year	
2. Aggregate balance	81,808

NANTUCKET REGIONAL TRANSIT AUTHORITY  
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Schedule 3

Schedule of Compensation Required by Massachusetts  
Executive Office for Administration and Finance  
June 30, 2013

<u>Title</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>Severance</u>	<u>Retirement Contribution</u>	<u>Other</u>
Administrator	\$ 85,301	\$ -	\$ -	\$ 16,150	\$ 15,584
Other employees	-	-	-	-	-
Advisory Board Members	-	-	-	-	-