NORTHERN NEW ENGLAND PASSENGER RAIL AUTHORITY

Financial Report

June 30, 2016

CONTENTS

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Independent Auditors' Report

Board of Directors
Northern New England Passenger Rail Authority
Portland, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern New England Passenger Rail Authority (the Authority), a component unit of the State of Maine, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessments 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 opinion.

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, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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 3 through 7, the Schedule of Infrastructure of page 22, the Schedule of Funding Progress on page 23, and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions, both on page 24, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, October 11, 2016, on our consideration of Northern New England Passenger Rail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Northern New England Passenger Rail Authority's internal control over financial reporting and compliance.

Macpage LLC

South Portland, Maine
October 11, 2016

Management's Discussion and Analysis

June 30, 2016

The management of Northern New England Passenger Rail Authority (NNEPRA) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2016.

BASIC FINANCIAL STATEMENTS

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting private-sector business enterprises use. The method of accounting has an economic resource measurement focus using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These are followed by the notes to the financial statements.

The statement of net position presents information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources reported as net position. In comparisons over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NNEPRA is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports the operating revenue and the non-operating revenue and the expenses of NNEPRA for the fiscal year with the difference (net income or loss before capital grants) being combined with the activity in capital grants to determine the change in net position for the fiscal year. The change in net position when added to the net position total from the previous fiscal years reconciles to the net position total at the end of the current fiscal year.

The statement of cash flows reports the changes in cash and cash equivalents for the fiscal year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning cash and cash equivalent balance for the fiscal year results in the cash and cash equivalent balance at the end of the current fiscal year.

Management's Discussion and Analysis

June 30, 2016

FINANCIAL HIGHLIGHTS

The following is a condensed comparative analysis of the Statement of Net Position as of June 30:

	2016	2015	Increase (Decrease)
Assets			
Cash and cash equivalents	**$ 1,338,245**	$ 2,839,191	$ (1,500,946)
Grants receivable - federal government	**4,159,720**	4,535,444	(375,724)
Grants receivable - State of Maine	**350,847**	2,932,648	(2,581,801)
Trade receivable	**2,069**	2,251	(182)
Construction inventory	**1,989,723**	1,191,347	798,376
Prepaid expenses and deposits	**949,450**	949,415	35
Capital assets, net of accumulated depreciation	**13,708,043**	2,838,145	10,869,898
Restricted cash	**314,783**	797,618	(482,835)
Due from State of Maine	**205,500**	172,000	33,500
Total Assets	**23,018,380**	16,258,059	6,760,321
Deferred Outflows of Resources	**228,944**	127,883	101,061
Total Assets and Deferred Outflows of Resources	**$ 23,247,324**	$ 16,385,942	$ 6,861,382
Liabilities			
Accounts payable	**$ 2,919,099**	$ 5,291,611	$ (2,372,512)
Accrued vacation	**37,813**	36,413	1,400
Unearned revenue	**-**	2,998,070	(2,998,070)
Other post - employment benefits liability	**213,000**	186,000	27,000
Net pension liability	**732,631**	652,453	80,178
Total Liabilities	**3,902,543**	9,164,547	(5,262,004)
Deferred Inflows of Resources	**152,613**	176,157	(23,544)
Net Position			
Investment in capital assets	**13,708,043**	2,838,145	10,869,898
Restricted for future rail construction	**1,905,835**	2,179,164	(273,329)
Unrestricted	**3,578,290**	2,027,929	1,550,361
Total Net Position	**19,192,168**	7,045,238	12,146,930
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 23,247,324**	$ 16,385,942	$ 6,861,382

The change in net position restricted for future rail construction for the year ended June 30, 2016, is as follows:

Interest income earned	$ 1,087
Capacity improvement project expenses	(61,432)
Track used for the Brunswick layover facility	(212,984)
Change in net position restricted for future rail construction	$(273,329)

Management's Discussion and Analysis

June 30, 2016

- Assets and deferred outflows of resources of $23,247,324 exceeded liabilities and deferred inflows of resources of $4,055,156 by $19,192,168 (net position) at the close of fiscal year 2016. Of these assets, $314,783 is restricted cash for future rail improvements and $13,708,043 relates to capital assets, which are primarily land in Brunswick and Portland and the train layover facilities in Brunswick and Portland, and related equipment at Thompson's Point in Portland.

- Cash and investments decreased $1,500,946 from $2,839,191, at June 30, 2015 to $1,338,245 at June 30, 2016, while restricted cash decreased $482,835 from $797,618 to $314,783 for the same period. The balance of restricted cash can fluctuate from year to year as the account has been approved to be borrowed from and subsequently reimbursed by the drawdown of federal grant funds.

- Grants receivable - federal government decreased $375,724 from $4,535,444 at June 30, 2015 to $4,159,720 at June 30, 2016. The decrease is attributed to the timing of rail construction improvements.

- Grants receivable - State of Maine decreased $2,581,801 from $2,932,648 at June 30, 2015 to $350,847 at June 30, 2016. The corresponding decrease in unearned revenue of $2,998,070 from $2,998,070 at June 30, 2015 to $0 at June 30, 2016 is also related to State of Maine funding which was received in 2015, and the revenue was being deferred until the expenses were incurred in 2016.

- Construction inventory increased a net of $798,376 from the previous year as track inventory was purchased during the year.

- Total liabilities decreased $5,263,004 from $9,164,547 at the close of fiscal year 2015 to $3,902,543 at the close of 2016 primarily due to a decrease in accounts payable and unearned revenue as a result of the timing of vendor payments and cash flow management.

Management's Discussion and Analysis

June 30, 2016

The following is a condensed comparative analysis of the Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30:

	2016	2015	Increase (Decrease)
Operating Revenue	**$ 9,148,323**	$ 8,744,270	$ 404,053
Operating Expenses			
Commuter railroad and local subsidy expenses	**16,518,906**	15,011,750	1,507,156
Wages and fringe benefits	**513,244**	515,463	(2,219)
Marketing	**478,062**	429,078	48,984
Station operations	**527,567**	517,015	10,552
Food service	**828,287**	893,999	(65,712)
All other expenses	**283,456**	207,472	75,984
Total Operating Expenses	**19,149,522**	17,574,777	1,574,745
Operating Loss	**(10,001,199)**	(8,830,507)	(1,170,692)
Non-Operating Income	**11,034,475**	8,764,975	2,269,500
Income (Loss) Before Capital Grants	**1,033,276**	(65,532)	1,098,808
Capital Grant Revenue (Expense)			
U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	**10,172,076**	2,635,664	7,536,412
State of Maine Grants	**3,355,890**	289,154	3,066,736
Rail construction	**(507,520)**	(1,270,509)	762,989
Downeaster expansion	**(408,386)**	(138,133)	(270,253)
Portland layover facility	**(6,223)**	(293,899)	287,676
Planning grant	**(73,557)**	(7,741)	(65,816)
Other grant expenses	**-**	(14,400)	14,400
MBTA grant	**(1,418,626)**	(338,189)	(1,080,437)
	11,113,654	861,947	10,251,707
Change in Net Position	**12,146,930**	796,415	11,350,515
Net Position, Beginning of Year	**7,045,238**	6,248,823	796,415
Net Position, End of Year	**$19,192,168**	$ 7,045,238	$12,146,930

Management's Discussion and Analysis

June 30, 2016

- Revenue increased $404,053 or 5% over FY 2015. The bulk of the increase was $437,376 in ticket revenue. Café revenue decreased $62,761 from the prior year. Parking lot revenue increased $38,058 as compared to prior year. Advertising and other revenues decreased by $8,620.

- Commuter railroad and local subsidy expenses increased $1,496,054 from $15,011,750 in 2015 to $16,507,804 in 2016, due to increases in equipment capital charges from Amtrak and partially offset by lower fuel costs.

- The State of Maine contributed approximately 25% of non-operating funds received for fiscal year 2016 in the form of federal grant matching requirements for operations and capital projects as well as bond funds for construction of the Brunswick layover facility. Federal funding received was related to both capital improvements and operations.

- Net capital grant revenue (expenses) increased from the prior year at $861,947 in 2015 to $11,113,654 in 2016 as a result of funding for the Brunswick Layover Facility being recognized as revenue and related capital expenses were capitalized as construction in progress within capital assets.

- NNEPRA is not required to adopt a legal budget. Therefore, no budgetary comparison is presented.

- NNEPRA does not have any long-term debt.

Additional Information:

The Amtrak Downeaster makes five round-trips daily along the 116 mile route between Portland, Maine and Boston, Massachusetts, traveling at speeds of up to 79 mph, with two of those daily round trips providing service to the communities of Freeport and Brunswick. Fiscal year 2016 was the thirteenth full fiscal year of passenger rail operations on the Portland to Boston route since commuter service began December 15, 2001. Amtrak-reported ridership increased from 438,364 passengers in fiscal year 2015 to 473,923 passengers in fiscal year 2016.

Requests for Information

This financial report is intended to provide an overview of the finances of the Northern New England Passenger Rail Authority for those who have an interest in the Organization. Questions concerning any information contained in the report may be directed to me.

Respectfully submitted,

Patricia Quinn
Executive Director

Statement of Net Position

June 30, 2016

ASSETS		
Current Assets		
Cash and cash equivalents	$	1,338,245
Grants receivable - federal government		4,159,720
Grants receivable - State of Maine		350,847
Trade receivable		2,069
Construction inventory		1,989,723
Prepaid expenses and deposits		949,450
		8,790,054
Capital Assets		
Building and improvements		302,823
Construction in progress		11,833,945
Heavy equipment		29,484
Office equipment		14,650
		12,180,902
Less accumulated depreciation		149,088
		12,031,814
Infrastructure		748,665
Land		927,564
		13,708,043
Other Assets		
Restricted cash		314,783
Due from State of Maine		205,500
		520,283
Total Assets		23,018,380
Deferred Outflows of Resources		228,944
Total Assets and Deferred Outflows of Resources	$	23,247,324
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable - trade	$	2,919,099
Accrued vacation		37,813
		2,956,912
Non-Current Liabilities		
Other post - employment benefits liability		213,000
Net pension liability		732,631
		945,631
Total Liabilities		3,902,543
Deferred Inflows of Resources		152,613
Net Position		
Investment in capital assets		13,708,043
Restricted for future rail construction		1,905,835
Unrestricted		3,578,290
Total Net Position		19,192,168
Total Liabilities, Deferred Inflows of Resources and Net Position	$	23,247,324

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016

Operating Revenue, Not Including State and Federal Assistance	
Ticket revenues	$ 8,082,931
Food service	613,142
Parking lot revenues	451,130
Advertising revenues	1,120
	9,148,323
Operating Expenses	
Commuter railroad and local subsidy expenses	16,518,906
Wages and fringe benefits	513,244
Administration	253,181
Marketing	478,062
Station operations	527,567
Food service	828,287
Depreciation	14,492
Board expenses	15,783
	19,149,522
Operating Loss	(10,001,199)
Non-Operating Income	
U.S. Department of Transportation, Federal Transit Administration grant	8,749,286
State of Maine grants	2,000,000
Other income	276,839
Interest income	8,350
	11,034,475
Income Before Capital Grants	1,033,276
Capital Grant Revenue (Expense)	
U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	10,172,076
State of Maine grants	3,355,890
Rail construction expenditures	(507,520)
Downeaster expansion	(408,386)
Portland layover facility	(6,223)
Planning grant	(73,557)
MBTA grant	(1,418,626)
	11,113,654
Change in Net Position	12,146,930
Net Position, Beginning of Year, As Restated	7,045,238
Net Position, End of Year	$ 19,192,168

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operations	
Receipts from operating revenues	**$ 9,148,505**
Payments to suppliers and vendors	**(21,027,833)**
Payments to employees	**(529,271)**
Net cash used in operations	**(12,408,599)**
Cash flows from non-capital financing activities	
U.S. Department of Transportation, Federal Transit Administration grants	**8,749,286**
U.S. Department of Federal Transit Railroad Administration grants	**10,547,800**
State of Maine grants	**4,939,621**
Net cash provided by non-capital financing activities	**24,236,707**
Cash flows from capital and related financing activities	
Purchase of capital assets	**(10,884,390)**
Net cash used in capital and related financing activities	**(10,884,390)**
Cash flows from investing activities	
Payments for rail construction	**(3,212,688)**
Interest income	**8,350**
Other income	**276,839**
Use of restricted cash	**482,835**
Net cash used in investing activities	**(2,444,664)**
Net decrease in cash and cash equivalents	**(1,500,946)**
Cash and cash equivalents at beginning of year	**2,839,191**
Cash and cash equivalents at end of year	**$ 1,338,245**

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	**$ (10,001,199)**
Adjustments not affecting cash	
Depreciation	**14,492**
Change in operating assets and liabilities	
Decrease in accounts receivable - operating revenues	**182**
Increase in prepaid expenses	**(35)**
Increase in due from State of Maine	**(33,500)**
Increase in deferred outflows of resources	**(101,061)**
Decrease in accounts payable	**(2,372,512)**
Increase in accrued vacation	**1,400**
Increase in other post-employment benefits liability	**27,000**
Increase in net pension liability	**80,178**
Decrease in deferred inflows of resources	**(23,544)**
Total adjustments	**(2,407,400)**
Net cash used in operating activities	**$ (12,408,599)**

See independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2016

NOTE 1 – NATURE OF THE ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Entity

Northern New England Passenger Rail Authority (the Authority) was enacted on June 29, 1995, by the State of Maine Legislature to initiate, establish and maintain regularly scheduled passenger rail service between Portland, Maine and Boston, Massachusetts. During the year ended June 30, 2010, the Authority was approved to begin construction on expanding the service north to Brunswick, Maine, for which service began in November 2012.

These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (standards and interpretations), constitute GAAP for governmental units. GAAP also includes guidance from the American Institute of Certified Public Accountants in the publication entitled, State and Local Governments. The more significant of the Authority's accounting policies are described below.

Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed all potential component units for which the Authority may be financially accountable and, as such, should be included within the Authority's financial statements. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 61, the Authority is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Authority. Additionally, the Authority is required to consider other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there are no other entities that should be included as part of these financial statements.

Under these standards, the Authority is considered to be a component unit of the State of Maine.

Basis of Accounting

The proprietary fund type is used by the Authority.

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All ticket revenues are collected and retained by Amtrak in lieu of the monthly payment for the train service in accordance with the operating agreement (Note 9).

Notes to Financial Statements

June 30, 2016

NOTE 1 – NATURE OF THE ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Revenues are recognized as the goods or services that are provided to the customer.

Grants Receivable and Trade Receivable

Management believes that all grants receivable and trade receivable as of June 30, 2016 are fully collectible; therefore, no allowance for doubtful accounts was recorded.

Construction Inventory

Construction inventory consists of rail and hardwood cross ties purchased for future projects and for emergency use. Inventory is stated at the lower of cost or market. The cost is recorded as expenditure at the time of consumption, which is determined to be the point in time when the railroad owner takes possession of the inventory and installs it on the railroad line owner's property.

Capital Assets

Capital assets consist of a building and improvements, heavy equipment, office equipment and construction in progress. Purchased capital assets are reported at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair value at the date of donation. The Authority maintains a capitalization threshold of $5,000. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. As the rail line is owned by a third party and is not owned by the Authority, any expenses relative to the capital improvements of the rail line are expensed as incurred.

Land has an indefinite life and is not depreciated. Infrastructure, the layover facility located in Portland, Maine, uses the modified approach and is not depreciated. All other capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Building and improvements	10 – 30 years
Heavy equipment	5 – 10 years
Office equipment	5 – 10 years

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority's deferred outflows relate to its pension liability and are disclosed in Note 6.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority's deferred inflows relate to its pension liability and are disclosed in Note 6.

Notes to Financial Statements

June 30, 2016

NOTE 1 – NATURE OF THE ENTITY AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Cash and Restricted Net Position

Restricted cash and restricted net position are comprised of funds from the State of Maine. The funds are intended to be utilized for capital improvements to the existing passenger rail service from Brunswick to Boston. Accordingly, these funds are not available for operating purposes of the Authority.

Budget

The Authority is not required to adopt a legal budget; therefore, no budgetary comparison is presented.

Concentration

Approximately 73% of the Authority’s funding is provided by federal and state capital and operating grants.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Recently Adopted Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, - an amendment of GASB Statement No. 45. This statement improves the accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The new statement is effective for periods beginning after June 15, 2016.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Authority's deposits consist of checking accounts at TD Bank N.A.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to them. The Authority does not have a written deposit policy for custodial credit risk; however, the Authority’s practice has been to obtain collateral from the bank to secure its deposits.

As of June 30, 2016, none of the Authority’s bank balance of $1,653,028 was exposed to custodial credit risk as $250,000 is covered by FDIC insurance and the Authority had a letter of credit with the Federal Home Loan Bank of Pittsburgh for up to $3.0 million of deposits.

Notes to Financial Statements

June 30, 2016

NOTE 3 – CAPITAL ASSETS

Capital asset activity is as follows for the year ended June 30, 2016:

	Beginning Balance (Restated)	Additions (Reductions)	Ending Balance
Capital assets:			
Building and improvements	$ 302,823		$ 302,823
Construction in progress	949,555	$10,884,390	11,833,945
Heavy equipment	29,484		29,484
Office equipment	14,650		14,650
Total capital assets	1,296,512	10,884,390	12,180,902
Less accumulated depreciation	134,596	(14,492)	149,088
Total capital assets, net	1,161,916	10,869,898	12,031,814
Infrastructure	748,665		748,665
Land	927,564		927,564
Totals	$ 2,838,145	$10,869,898	$13,708,043

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance
Other Postretirement Benefits Liability	$ 186,000	$ 27,000	$ -	$ 213,000
Net Pension Liability	$ 652,453	$ 80,178	$ -	$ 732,631

NOTE 5 – CHANGE IN UNRESTRICTED AND RESTRICTED NET POSITION

The components of the change in unrestricted and restricted net position are as follows:

	Unrestricted	Restricted	Total
Operating revenue	$ 9,148,323		$ 9,148,323
Operating expenses	19,149,522		19,149,522
Operating loss	(10,001,199)		(10,001,199)
Non-operating income	11,033,388	$ 1,087	11,034,475
Income (loss) before capital grants	1,032,189	1,087	1,033,276
Capital grant revenue (expense)			
U.S. Department of Transportation, Federal Transit Administration Grant	10,172,076		10,172,076
State of Maine grants	3,355,890		3,355,890
Rail construction expenditures	(507,520)		(507,520)
Downeaster expansion	(408,386)		(408,386)
Portland layover facility	(6,223)		(6,223)
Planning grant	(73,557)		(73,557)
MBTA grant	(1,144,210)	(274,416)	(1,418,626)
	11,388,070	(274,416)	11,113,654
Change in net position	$12,420,259	$ (273,329)	$12,146,930

Notes to Financial Statements

June 30, 2016

NOTE 6 – RETIREMENT PLAN

Plan Description

The Authority contributes to the Maine Public Employees Retirement System, as part of the State Employee and Teacher Plan (the Plan), which is a cost sharing multiple employer defined benefit pension plan. The Plan was established as the administrator of a public employee retirement system under the Laws of the State of Maine. All full-time employees of the Authority are eligible to participate in the Plan. The Plan covers 231 participating employers.

Employee membership data related to the Plan, as of June 30, 2015, was as follows:

Current participants: Vested and non-vested	40,016
Terminated participants: Vested	7,511
Terminated participants: Inactive due refunds	36,810
Retirees and beneficiaries receiving benefits	33,260
	117,597

Benefit terms are established by Maine statute. The Plan's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for State employees). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The Plan also provides disability and death benefits which are established by statute for State employee members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the Plan's Board of Trustees and is currently 5%.

For the year ended June 30, 2016, the Authority's total payroll for all employees was $434,790. Total covered payroll was also $434,790. Covered payroll refers to all compensation paid by the Authority to active employees covered by the Plan.

Contributions

The contribution requirements of Plan members are defined by law or the Plan's Board. Employees of the Authority are required to contribute 5% of covered compensation to the Plan. The contributions are deducted from the employee’s wages or salary and remitted by the Authority to the Plan on a monthly basis. Employer contribution rates are determined through actuarial valuations. The Authority's required contribution rate for the year ended June 30, 2016, was 25% percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority's contributions to the Plan for the year ended June 30, 2016 were $108,570.

Notes to Financial Statements

June 30, 2016

NOTE 6 – RETIREMENT PLAN – CONTINUED

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Authority reported a liability of $732,631 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015 and June 30, 2014, the Authority's proportion was 0.072%.

For the year ended June 30, 2016, the Authority recognized pension expense of $64,143. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 101,430	$ 19,713
Changes of assumptions	13,366	
Net difference between projected and actual earnings on Plan investments		124,621
Changes in proportion and differences between contributions and proportionate share of contributions	5,578	8,279
Contributions subsequent to the measurement date	108,570	
Total	$ 228,944	$ 152,613

The $108,570 of deferred outflows of resources resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be netted and recognized in pension expense, as follows:

Years ending June 30,	
2017	$(13,264)
2018	(28,149)
2019	(16,183)
2020	25,357
Total	$(32,239)

Notes to Financial Statements

June 30, 2016

NOTE 6 – RETIREMENT PLAN – CONTINUED

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.55% per annum
Salary increases	3.5%-10.5% per year
Investment rate of return	7.125% per annum, compounded annually

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period of July 1, 2005 to June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	25	0.7 %
U.S. equities	20	5.2 %
Non-U.S. equities	20	5.5 %
Real estate	10	3.7 %
Infrastructure	10	4.0 %
Private equity	10	7.6 %
Hard Assets	5	4.8 %
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.125%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial Statements

June 30, 2016

NOTE 6 – RETIREMENT PLAN – CONTINUED

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.125% percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.125%) or 1-percentage-point higher (8.125%) than the current rate:

	Discount rate	Authority's proportionate share of net pension liability
1% decrease	6.125%	$ 1,086,953
Current discount rate	7.125%	$ 732,631
1% increase	8.125%	$ 433,528

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued Maine Public Employees Retirement System financial report.

NOTE 7 – OTHER POST – EMPLOYMENT BENEFITS (OPEB)

The Authority is a member of the State of Maine Ancillary Group Plan. The State of Maine contracts with an outside consultant to assist in the determination and valuation of the Authority's OPEB liability under GASB Statement 45. An OPEB liability actuarial valuation was completed by the consultants in October 2014.

Plan Description

In addition to providing pension benefits, the Plan provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirements as Maine Public Employees Retirement System.

Funding Policy and Annual OPEB Cost

GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The Authority currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide post-employment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the year and the annual required contribution:

Normal cost	$ 21,000
Amortization of unfunded	20,000
Annual required contribution	$ 41,000

Notes to Financial Statements

June 30, 2016

NOTE 7 – OTHER POST – EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Funding Status and Funding Progress

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016, was as follows:

Annual required contribution	$ 41,000
Interest on Net OPEB Obligation	7,000
Net OPEB Obligation adjustment	(14,000)
Actual contribution	(7,000)
Increase in Net OPEB Obligation	27,000
Net OPEB Obligation - beginning of year	186,000
Net OPEB Obligation - end of year	$ 213,000
Actuarial accrued liability	$ 291,000
Plan assets	
Unfunded actuarial accrued liability	$ 291,000
Covered payroll	$ 434,790
Unfunded actuarial accrued liability as a percentage of covered payroll	67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to past expectations and new estimates are made about the future. The required schedule of funding process presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive Plan (the Plan as understood by the employer and Plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Early age normal
Amortization method	Level percent
Remaining amortization period	25 years
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.25%
Participation percent of future retirees	95.00%

Notes to Financial Statements

June 30, 2016

NOTE 8 – OPERATING LEASES

The Authority entered into an agreement to lease office space through June 30, 2017. The terms of the lease require monthly lease payments, including common area maintenance and taxes.

The Authority entered into several leases for train facilities, including parking, a terminal facility, and a platform through January 15, 2017.

Rent expense for the year ended June 30, 2016 was $466,370.

Future minimum lease commitments as of June 30 are as follows:

	Office	Train Facilities	Total
2016	48,060	343,786	391,846
2017	48,660	171,893	220,553
Total	$ 96,720	$ 515,679	$ 612,399

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Amtrak

The Authority, along with National Railroad Passenger Corporation ("Amtrak"), negotiated a contract with Boston and Maine Corporation, Portland Terminal Company, Springfield Terminal Railway Company and Pan Am Railways (collectively referred to as the "Railroad"), with respect to (a) the rehabilitation of the Railroad's rail line between Plaistow, New Hampshire and Portland, Maine, and (b) the terms and conditions under which Amtrak will operate passenger rail service over that rail line.

The operating agreement with Amtrak is for a period of 20 years, commencing December 2001. The first three years of the operating agreement contained a provision that capped the cost of the services. Each year thereafter, the contract cost is negotiated between the Authority and Amtrak. The agreement provides that the Authority will fund the operating deficit of the rail service. Total payments to Amtrak under this operating agreement were $6,245,658 for the year ended June 30, 2016.

Railroad Maintenance Agreements (Railroad refers to Boston and Maine Corporation, Portland Terminal Company, Springfield Terminal Railway Company and Pan Am Railways)

Amtrak has an agreement with the Railroad, for general maintenance. General maintenance is based on maintaining the condition of the track at an acceptable level for passenger rail service and is charged at an annually adjusted flat rate per car mile. This portion of the agreement is billed by the Railroad to Amtrak and is reimbursed by the Authority to Amtrak as part of the funding agreement between the Authority and Amtrak.

The Authority has an agreement with the Railroad for capital maintenance. Capital maintenance is based on an annual capital plan agreed upon by the Authority and the Railroad. This portion of the agreement is billed by the Railroad to the Authority. The agreement is adjusted annually for inflation based on an index provided by the American Association of Public Railroads and averages approximately $744,000 per year. As of June 30, 2016, the commitment for capital maintenance services to be performed by Pan Am Railways resulting from 2011, 2012, 2013, 2014, 2015 and 2016 agreements was $565,544.

Notes to Financial Statements

June 30, 2016

NOTE 9 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Downeaster Portland North Expansion Project

In June 2010, the Authority was awarded $35 million in American Recovery and Reinvestment Act (ARRA) funds. In May 2011, the award was increased to $38.3 million. The funds are used on rehabilitation and expansion of the state-supported Downeaster Amtrak intercity passenger service from Portland to Brunswick. Approximately $36.6 million has been spent on the project to date, and approximately $1.7 million remains to be spent. Service between Brunswick and Boston began November 1, 2012. The expected completion date of the project is December 2016.

Agreement with Massachusetts Bay Transit Authority (MBTA)

In September 2011, the Authority entered into an agreement with the MBTA to upgrade a segment of the Massachusetts Downeaster corridor. The total cost of the project is expected to be approximately $26 million. Also, in September 2011, the Authority was awarded a grant from the Federal Railroad Administration for approximately $20.8 million to fund the project. The remainder of the project is being funded by MBTA matching contributions. Approximately $2,860,030 has been spent on the project to date. The projected completion date of the project is June 2017.

Brunswick Layover Facility

On July 10, 2015, the Authority's Board of Directors authorized the Executive Director to issue a Notice to Proceed to begin construction of the Brunswick layover facility, which is expected to cost approximately $13.7 million. Approximately $11,833,945 has been spent on the project to date. The expected completion date of the project is December 2016.

NOTE 10 – RESTATEMENT

The Authority incurred design and preconstruction expenditures for the Brunswick Layover Facility during the year ended June 30, 2015. There was significant controversy regarding the construction of the Brunswick Layover Facility and the Authority was still waiting on approval of permits to proceed with the project. These expenditures were not accounted for as in construction in progress as of June 30, 2015, as the construction of the Brunswick Layover Facility was still not certain. Once construction at the site was approved, the Authority restated its financial statements for the year ended June 30, 2015. The effect of the restatement was to increase the Authority's net position and construction in progress as of June 30, 2015 by $949,554.

Schedule of Infrastructure

June 30, 2016

Infrastructure consists of land work, paving, concrete and an irrigation system located at the Authority's layover facility in Portland, Maine.

Condition assessment	**Perfect condition**

The infrastructure was placed in service in December 2001. Historical information regarding the estimated annual cost to maintain and preserve the infrastructure for the past five years at a condition level of good or better is not available, however, the Authority estimates that the annual cost is less than $10,000 per year.

Note: The condition of infrastructure is based on requirements established by Amtrak and the Federal Railroad Administration to be in compliance with federal transportation standards of safety. The different classifications of the condition of infrastructure are as follows: perfect condition, good or better condition, fair condition and substandard condition. It is the policy of the Authority to maintain the infrastructure at a good or better condition level. Condition assessments are determined every year.

Schedule of Funding Progress
Other Post-Employment Benefit Obligation (OPEB)
June 30, 2016

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2016	June 30, 2014	$ -	$ 291,000	$ 291,000	0%	$ 434,790	67%
2015	June 30, 2014	-	285,000	285,000	0%	430,393	66%
2014	June 30, 2012	-	285,000	285,000	0%	424,409	67%
2013	June 30, 2012	-	279,000	279,000	0%	420,290	66%
2012	March 31, 2011	-	213,000	213,000	0%	388,087	55%
2011	March 31, 2011	-	198,000	198,000	0%	374,933	53%
2010	March 31, 2010	-	146,000	146,000	0%	318,223	46%

Schedule of Proportionate Share of the Net Pension Liability
Maine Public Employees Retirement System

June 30, 2016

Year Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Employee Payroll	Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.072%	$ 732,631	$ 434,790	169%	81.18%
June 30, 2015	0.072%	$ 652,453	$ 430,393	152%	84.04%

Schedule of Contributions
Maine Public Employees Retirement System

June 30, 2016

Year Ended	Contractually Required Contribution	Contributions Relative to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as as a Percentage of Covered Employee Payroll
June 30, 2016	$ 108,570	$ 108,570	$ -	$ 434,790	24.97%
June 30, 2015	$ 89,704	$ 89,704	$ -	$ 430,393	20.84%

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Independent Auditors' Report on Additional Information

Board of Directors
Northern New England Passenger Rail Authority
Portland, Maine

We have audited the financial statements of Northern New England Passenger Rail Authority as of and for the year ended June 30, 2016, and our report thereon dated October 11, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 – 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule, on page 26, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements as a whole.

Macpage LLC

South Portland, Maine
October 11, 2016

Schedule of Activities

Year Ended June 30, 2016

		Program Revenues			Net Revenue (Expense) and Change in Net Position
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total**
Governmental Activities:					
Business type activity:					
Operation and maintenance of passenger rail service	$ 21,563,834	$ 9,148,323	$ 10,749,286	$ 13,527,966	$ 11,861,741
General Revenues:					
Interest and investment earnings					8,350
Other revenue					276,839
Total General Revenues					285,189
Change in Net Position					12,146,930
Net Position, Beginning of Year, As Restated					7,045,238
Net Position, End of Year					$ 19,192,168