



**NORTHERN NEW ENGLAND
PASSENGER RAIL AUTHORITY**

Financial Report

June 30, 2017

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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, 2017, 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, 2017, and the respective 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.



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 5, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northern New England Passenger Rail Authority's 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 5, 2017

Management's Discussion and Analysis

June 30, 2017

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, 2017.

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, 2017

FINANCIAL HIGHLIGHTS

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

	2017	2016	Increase (Decrease)
Assets			
Cash and cash equivalents	\$ 2,452,365	\$ 1,338,245	\$ 1,114,120
Grants receivable - federal government	4,429,873	4,159,720	270,153
Grants receivable - State of Maine	343	350,847	(350,504)
Trade receivable	156,490	2,069	154,421
Construction inventory	65,225	1,989,723	(1,924,498)
Prepaid expenses and deposits	950,407	949,450	957
Capital assets, net of accumulated depreciation	15,321,188	13,708,043	1,613,145
Restricted cash	1,249,390	314,783	934,607
Due from State of Maine	246,000	205,500	40,500
Total Assets	<u>24,871,281</u>	<u>23,018,380</u>	<u>1,852,901</u>
Deferred Outflows of Resources	369,166	228,944	140,222
Total Assets and Deferred Outflows of Resources	<u>\$ 25,240,447</u>	<u>\$ 23,247,324</u>	<u>\$ 1,993,123</u>
Liabilities			
Accounts payable	\$ 4,990,327	\$ 2,919,099	\$ 2,071,228
Accrued vacation	40,588	37,813	2,775
Unearned revenue	-	741,412	(741,412)
Other liabilities	1,800	-	1,800
Other post - employment benefits liability	230,000	213,000	17,000
Net pension liability	924,385	732,631	191,754
Total Liabilities	<u>6,187,100</u>	<u>4,643,955</u>	<u>1,543,145</u>
Deferred Inflows of Resources	110,832	152,613	(41,781)
Net Position			
Investment in capital assets	15,321,188	13,708,043	1,613,145
Restricted for future rail construction	1,401,778	1,905,835	(504,057)
Unrestricted	2,219,549	2,836,878	(617,329)
Total Net Position	<u>18,942,515</u>	<u>18,450,756</u>	<u>491,759</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 25,240,447</u>	<u>\$ 23,247,324</u>	<u>\$ 1,993,123</u>

The change in net position restricted for future rail construction for the year ended June 30, 2017 is, as follows:

Interest income earned	\$ 1,587
Capacity improvement project expenses	(9,106)
Restricted transfers	416,602
Track used for the Brunswick layover facility	(913,140)
Change in net position restricted for future rail construction	<u>\$ (504,057)</u>

Note: Net Position for 2016 has been restated.

Management's Discussion and Analysis

June 30, 2017

Assets and deferred outflows of resources of \$25,240,447 exceeded liabilities and deferred inflows of resources of \$6,297,932 by \$18,942,515 (net position) at the close of fiscal year 2017. Of these assets, \$1,249,390 is restricted cash for future rail improvements and \$15,321,188 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 increased \$1,114,120 from \$1,338,245 at June 30, 2016, to \$2,452,365 at June 30, 2017, while restricted cash increased \$934,607 from \$314,783 to \$1,249,390 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 increased \$270,153 from \$4,159,720 at June 30, 2016 to \$4,429,873 at June 30, 2017. The increase is attributed to the timing of rail construction improvements.
- Grants receivable - State of Maine decreased \$350,504 from \$350,847 at June 30, 2016 to \$343 at June 30, 2017. The decrease is attributed to reimbursement received from the State of Maine.
- Construction inventory decreased a net of \$1,924,498 from the previous year as rail was allocated to the Royal Junction Project and cross ties were installed for the Pan Am Capital Tie Replacement Project.
- Total liabilities increased \$1,543,145 from \$4,643,955 at the close of fiscal year 2016 to \$6,187,100 at the close of 2017 primarily due to the timing of invoices received and supplier payments.

Management's Discussion and Analysis

June 30, 2017

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

	2017	2016	Increase (Decrease)
Operating Revenue	\$ 9,834,618	\$ 9,148,323	\$ 686,295
Operating Expenses			
Commuter railroad	18,033,707	16,518,906	1,514,801
Wages and fringe benefits	585,876	513,244	72,632
Marketing	520,023	478,062	41,961
Station operations	566,849	527,567	39,282
Food service	914,998	828,287	86,711
All other expenses	534,781	283,456	251,325
Total Operating Expenses	21,156,234	19,149,522	2,006,712
Operating Loss	(11,321,616)	(10,001,199)	(1,320,417)
Non-Operating Income	13,252,938	11,034,475	2,218,463
Income Before Capital Grants	1,931,322	1,033,276	898,046
Capital Grant Revenue (Expense)			
U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	15,972,344	10,172,076	5,800,268
Contributed construction services, in kind	3,786,404	-	3,786,404
State of Maine Grants	390,565	3,355,890	(2,965,325)
Rail construction	(3,774,312)	(507,520)	(3,266,792)
Downeaster expansion	(598,302)	(408,386)	(189,916)
Portland layover facility	167	(6,223)	6,390
Planning grant	(35,278)	(73,557)	38,279
MBTA project	(16,963,318)	(1,418,626)	(15,544,692)
SAIPRC grant	(208,745)	-	(208,745)
Other grant expenses	(9,088)	-	(9,088)
	(1,439,563)	11,113,654	(12,553,217)
Change in Net Position	491,759	12,146,930	(11,655,171)
Net Position, Beginning of Year, As Restated	18,450,756	6,303,826	12,146,930
Net Position, End of Year	\$ 18,942,515	\$ 18,450,756	\$ 491,759

Management's Discussion and Analysis

June 30, 2017

- Revenue increased \$686,295, or 7.5%, over FY 2016. The bulk of the increase was \$537,190 in ticket revenue. Café revenue increased \$96,536 from the prior year. Parking lot revenue increased \$48,679 as compared to prior year. Advertising and other revenues increased by \$3,890.
- Commuter railroad expenses increased \$1,514,801 from \$16,518,906 in 2016 to \$18,033,707 in 2017, due to a new Amtrak Cost Agreement.
- The State of Maine contributed approximately 7% of non-operating funds received for fiscal year 2017 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) decreased from the prior year at \$11,113,654 in 2016 to \$(1,439,563) in 2017 as a result of the NNEPRA MBTA Doubletrack Project expenditures increased over 2016. The project was substantially completed in FY 2017.
- 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 three of those daily round trips extending an additional 28 miles east to provide service to the communities of Freeport and Brunswick. Fiscal year 2017 was the fifteenth 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 473,923 passengers in fiscal year 2016 to 511,422 passengers in fiscal year 2017.

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 Authority. 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, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,452,365
Grants receivable - federal government	4,429,873
Grants receivable - State of Maine	343
Trade receivable	156,490
Construction inventory	65,225
Prepaid expenses and deposits	950,407
	<u>8,054,703</u>

Capital Assets

Buildings and improvements	10,892,896
Construction in progress	81,897
Heavy equipment	1,533,085
Office equipment	14,650
	<u>12,522,528</u>
Less accumulated depreciation	380,761
	<u>12,141,767</u>
Infrastructure	2,285,672
Land	893,749
	<u>15,321,188</u>

Other Assets

Restricted cash	1,249,390
Due from State of Maine	246,000
	<u>1,495,390</u>

Total Assets

24,871,281

Deferred Outflows of Resources

369,166

Total Assets and Deferred Outflows of Resources

\$ 25,240,447

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable - trade	\$ 4,990,327
Accrued vacation	40,588
Other liabilities	1,800
	<u>5,032,715</u>

Non-Current Liabilities

Other post - employment benefits liability	230,000
Net pension liability	924,385
	<u>1,154,385</u>

Total Liabilities

6,187,100

Deferred Inflows of Resources

110,832

Net Position

Investment in capital assets	15,321,188
Restricted for future rail construction	1,401,778
Unrestricted	2,219,549
	<u>18,942,515</u>

Total Net Position

18,942,515

Total Liabilities, Deferred Inflows of Resources and Net Position

\$ 25,240,447

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, 2017

Operating Revenue, Not Including State and Federal Assistance

Ticket revenues	\$ 8,620,121
Food service	709,678
Parking lot revenues	499,809
Advertising revenues	5,010
	<u>9,834,618</u>

Operating Expenses

Commuter railroad	18,033,707
Wages and fringe benefits	585,876
Administration	283,681
Marketing	520,023
Station operations	566,849
Food service	914,998
Depreciation	231,673
Board expenses	19,427
	<u>21,156,234</u>

Operating Loss

(11,321,616)

Non-Operating Income

U.S. Department of Transportation, Federal Transit Administration grant	10,543,789
Contributed construction services, in kind	387,140
State of Maine grants	2,000,000
Other income	317,996
Interest income	4,013
	<u>13,252,938</u>

Income Before Capital Grants

1,931,322

Capital Grant Revenue (Expense)

U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	15,972,344
Contributed construction services, in kind	3,786,404
State of Maine grants	390,565
Rail construction expenditures	(3,774,312)
Downeaster expansion	(598,302)
Portland layover facility	167
Planning grant	(35,278)
MBTA grant	(16,963,318)
SAIPRC grant	(208,745)
Other grant expenses	(9,088)
	<u>(1,439,563)</u>

Change in Net Position

491,759

Net Position, Beginning of Year, As Restated

18,450,756

Net Position, End of Year

\$ 18,942,515

See independent auditors' report.

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year Ended June 30, 2017

Cash flows from operations

Receipts from operating revenues	\$ 9,680,197
Payments to suppliers and vendors	(19,048,526)
Payments to employees	(556,350)
Net cash used in operations	<u>(9,924,679)</u>

Cash flows from non-capital financing activities

U.S. Department of Transportation, Federal Transit Administration grants	9,000,494
U.S. Department of Federal Transit Railroad Administration grants	21,419,030
State of Maine grants	2,741,069
Net cash provided by non-capital financing activities	<u>33,160,593</u>

Cash flows from capital and related financing activities

Purchase of capital assets	(1,844,818)
Net cash used in capital and related financing activities	<u>(1,844,818)</u>

Cash flows from investing activities

Payments for rail construction	(19,664,378)
Interest income	4,013
Other income	317,996
Use of restricted cash	(934,607)
Net cash used in investing activities	<u>(20,276,976)</u>

Net increase in cash and cash equivalents 1,114,120

Cash and cash equivalents at beginning of year 1,338,245

Cash and cash equivalents at end of year \$ 2,452,365

Reconciliation of operating loss to net cash used in operating activities

Operating loss	<u>\$ (11,321,616)</u>
Adjustments not affecting cash	
Depreciation	231,673
Change in operating assets and liabilities	
Increase in accounts receivable - operating revenues	(154,421)
Increase in prepaid expenses	(957)
Increase in due from State of Maine	(40,500)
Increase in deferred outflows of resources	(140,222)
Increase in accounts payable	2,071,228
Increase in accrued vacation	2,775
Increase in other liabilities	(739,612)
Increase in other post-employment benefits liability	17,000
Increase in net pension liability	191,754
Decrease in deferred inflows of resources	(41,781)
Total adjustments	<u>1,396,937</u>

Net cash used in operating activities **\$ (9,924,679)**

See independent auditors' report.

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2017

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 10).

Notes to Financial Statements

June 30, 2017

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

Revenue Recognition

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

Grants Receivable and Trade Receivable

Management believes that all grants receivable and trade receivable as of June 30, 2017 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 buildings 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, which consists of the layover facility located in Portland, Maine and the tracks associated with the layover facility in Brunswick, 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
Buildings and improvements	10 – 40 years
Heavy equipment	5 – 15 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, 2017

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 77% 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 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. Management is currently evaluating the impact of adoption on its financial statements.

In June 2017, GASB issued GASB Statement No. 87, *Leases*. This new standard will provide users of the financial statements a more accurate picture of the assets and the long-term financial obligations of the government entity. The proposal is for a dual-model approach; a lessee would account for most existing capital leases as Type A leases, and most existing operating leases as Type B leases. Both would be reported on the balance sheet of the government. Lessors will see some changes too, largely made to align with the revised lease model. This standard is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of adoption on its financial statements.

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. 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, 2017, the Authority reported deposits of \$3,701,755 with bank balances of \$4,893,721. None of the Authority's bank balances 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 \$5.25 million of deposits.

Notes to Financial Statements

June 30, 2017

NOTE 3 – CAPITAL ASSETS

Capital asset activity is as follows for the year ended June 30, 2017:

	Beginning Balance	Additions (Reductions)	Ending Balance
Capital assets:			
Buildings and improvements	\$ 302,823	\$ 10,590,073	\$ 10,892,896
Construction in progress	11,833,945	(11,752,048)	81,897
Heavy equipment	29,484	1,503,601	1,533,085
Office equipment	14,650		14,650
Total capital assets	12,180,902	341,626	12,522,528
Less accumulated depreciation	149,088	231,673	380,761
Total capital assets, net	12,031,814	109,953	12,141,767
Infrastructure	748,665	1,537,007	2,285,672
Land	927,564	(33,815)	893,749
Totals	<u>\$ 13,708,043</u>	<u>\$ 1,613,145</u>	<u>\$ 15,321,188</u>

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance
Other Postretirement Benefits Liability	<u>\$ 213,000</u>	<u>\$ 17,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>
Net Pension Liability	<u>\$ 732,631</u>	<u>\$ 191,754</u>	<u>\$ -</u>	<u>\$ 924,385</u>

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	\$ 9,834,618		\$ 9,834,618
Operating expenses	21,156,234		21,156,234
Operating loss	(11,321,616)		(11,321,616)
Non-operating income	13,251,351	\$ 1,587	13,252,938
Income (loss) before capital grants	1,929,735	1,587	1,931,322
Capital grant revenue (expense)			
U.S. Department of Transportation, Federal Transit Administration Grant	15,972,344		15,972,344
Contributed construction services, in kind	3,786,404		3,786,404
State of Maine grants	390,565		390,565
Rail construction expenditures	(3,774,312)	(505,644)	(4,279,956)
Downeaster expansion	(598,302)		(598,302)
Portland layover facility	167		167
Planning grant	(35,278)		(35,278)
MBTA grant	(16,457,674)		(16,457,674)
SAIPRC grant	(208,745)		(208,745)
Other grant expenses	(9,088)		(9,088)
	<u>(933,919)</u>	<u>(505,644)</u>	<u>(1,439,563)</u>
Change in net position	<u>\$ 995,816</u>	<u>\$ (504,057)</u>	<u>\$ 491,759</u>

Notes to Financial Statements

June 30, 2017

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, 2016, was as follows:

Current participants: Vested and non-vested	39,942
Terminated participants: Vested	7,783
Terminated participants: Inactive due refunds	37,656
Retirees and beneficiaries receiving benefits	34,181
	<u>119,562</u>

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, 2017, the Authority's total payroll for all employees was \$469,031. Total covered payroll was also \$469,031. 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 contribute up to 5% of covered compensation in relation to their employment status. 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, 2017 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, 2017 were \$116,329.

Notes to Financial Statements

June 30, 2017

NOTE 6 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2017, the Authority reported a liability of \$924,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016 and June 30, 2015, the Authority's proportion was 0.069% and 0.072%, respectively.

For the year ended June 30, 2017, the Authority recognized pension expense of \$126,080. At June 30, 2017, 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	\$ 13,884	\$ 7,865
Changes of assumptions	45,198	
Net difference between projected and actual earnings on Plan investments	191,905	79,935
Changes in proportion and differences between contributions and proportionate share of contributions	1,850	23,032
Contributions subsequent to the measurement date	116,329	
Total	<u>\$ 369,166</u>	<u>\$ 110,832</u>

The \$116,329 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 ended June 30, 2017. 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,	
2018	\$ 23,296
2019	34,954
2020	54,076
2021	29,679
Total	<u>\$ 142,005</u>

Notes to Financial Statements

June 30, 2017

NOTE 6 – RETIREMENT PLAN – CONTINUED

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% per annum
Salary increases	2.75%-8.75% per year
Investment rate of return	6.875% 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, 2016 valuation were based on the results of an actuarial experience study for the period of June 30, 2012 through June 30, 2015.

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	2.9 %
U.S. equities	20	5.7 %
Non-U.S. equities	20	5.5 %
Real estate	10	5.2 %
Infrastructure	10	5.3 %
Private equity	10	7.6 %
Hard Assets	5	5.0 %
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.875%. 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, 2017

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 6.875% 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 (5.875%) or 1-percentage-point higher (7.875%) than the current rate:

	<u>Discount rate</u>	<u>Authority's proportionate share of net pension liability</u>
1% decrease	5.875%	\$ 1,297,804
Current discount rate	6.875%	\$ 924,385
1% increase	7.875%	\$ 610,392

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 December 2016.

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	\$ 13,000
Amortization of unfunded	<u>22,000</u>
Annual required contribution	<u>\$ 35,000</u>

Notes to Financial Statements

June 30, 2017

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, 2017, was as follows:

Annual required contribution	\$ 35,000
Interest on Net OPEB Obligation	8,000
Net OPEB Obligation adjustment	(15,000)
Actual contribution	<u>(11,000)</u>
Increase in Net OPEB Obligation	17,000
Net OPEB Obligation - beginning of year	<u>213,000</u>
Net OPEB Obligation - end of year	<u>\$ 230,000</u>
Actuarial accrued liability	\$ 322,000
Plan assets	
Unfunded actuarial accrued liability	<u>\$ 322,000</u>
Covered payroll	\$ 468,730
Unfunded actuarial accrued liability as a percentage of covered payroll	69%

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, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	21 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, 2017

NOTE 8 – OPERATING LEASES

The Authority entered into an agreement to lease office space through June 30, 2020. The terms of the lease require monthly lease payments, including common area maintenance and taxes.

The Authority entered into a lease for parking at a park and ride lot owned by the MDOT, at no cost, through January 15, 2022. The Authority is currently renting facilities from Concord Coach Lines on a month by month basis while it negotiates final terms of its terminal facility and grounds leases. The approximate monthly cost is \$31,000.

Rent expense for the year ended June 30, 2017 was \$465,156.

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

2018	\$ 51,144
2019	51,744
2020	52,344
Total	<u>\$ 155,232</u>

NOTE 9 – NONMONETARY TRANSACTIONS

In March 2017, the Authority exchanged a parcel of land and building used as maintenance equipment storage for a similar parcel of land and building, both located at Thompson's Point. These capital assets exchanged by the Authority had a net book value of \$383,995. The Authority considers the new properties to be better suited for its current equipment storage and administrative space requirements. The Authority determined the value of the land and building received as being essentially equal to the properties given. As a result, no gain or loss was recognized on the exchange.

During the year ended June 30, 2017 the Authority received the benefit of in-kind construction services in the amount of \$387,140 for the Pan Am Cross Tie Replacement Project and \$3,786,404 for the NNEPRA MBTA Haverhill Doubletrack Project. Accordingly, these amounts have been recorded as both revenue and an expense during for the fiscal year.

NOTE 10 – 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 \$7,015,559 for the year ended June 30, 2017.

Notes to Financial Statements

June 30, 2017

NOTE 10 – COMMITMENTS AND CONTINGENCIES – CONTINUED

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 \$763,000 per year. As of June 30, 2017, the commitment for capital maintenance services to be performed by Pan Am Railways resulting from prior years and 2017 agreements was \$997,472.

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 \$38.25 million has been spent on the project to date. Service between Brunswick and Boston began November 1, 2012. The expected completion date of the project is June 2019.

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 \$19.6 million has been spent on the project to date. The projected completion date of the project is November 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 \$13.2 million has been spent on the project to date. The facility was placed in service in November 2016. The expected completion date of the project is December 2017.

NOTE 11 – RESTATEMENT

The Authority received State matching funds for the Brunswick Layover Facility prior to the years ended June 30, 2015, and the revenue was recognized in the fiscal years in which it was received. During the fiscal year ended June 30, 2017, this revenue source was re-evaluated and determined that instead the revenue should be recognized during the fiscal year ended June 30, 2016, to cover the local matching portion of the project. Accordingly, a restatement was made to decrease the Authority's net position and to increase unearned revenue as of June 30, 2016 by \$741,412.

Schedule of Infrastructure

June 30, 2017

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

Condition assessment - Portland

Perfect condition

Portland 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 \$6,000 per year.

Condition assessment - Brunswick

Perfect condition

Brunswick infrastructure was placed in service in November 2016. Historical information regarding the estimated annual cost to maintain and preserve the infrastructure at a condition level of good or better is not available, however, the Authority estimates that the annual cost is less than \$32,000 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, 2017

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]
2017	June 30, 2016	\$ -	\$ 322,000	\$ 322,000	0%	\$ 468,730	69%
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, 2017

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, 2017	0.069%	\$ 924,385	\$ 469,031	197%	76.21%
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, 2017

Year Ended	Contractually Required Contribution	Contributions Relative to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
June 30, 2017	\$ 116,329	\$ 116,329	\$ -	\$ 469,031	24.80%
June 30, 2016	\$ 108,570	\$ 108,570	\$ -	\$ 434,790	24.97%
June 30, 2015	\$ 89,704	\$ 89,704	\$ -	\$ 430,393	20.84%

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, 2017, and our report thereon dated October 5, 2017, 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 5, 2017

Macpage LLC

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Schedule of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Business type activity:					
Operation and maintenance of passenger rail service	\$ 42,745,110	\$ 9,834,618	\$ 12,930,929	\$ 20,149,313	\$ 169,750
General Revenues:					
Interest and investment earnings					4,013
Other revenue					317,996
Total General Revenues					<u>322,009</u>
Change in Net Position					491,759
Net Position, Beginning of Year, As Restated					<u>18,450,756</u>
Net Position, End of Year					<u>\$ 18,942,515</u>