NORTHERN NEW ENGLAND
PASSENGER RAIL AUTHORITY

Financial Report

June 30, 2013

CONTENTS

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, a component unit of the State of Maine, as of and for the year ended June 30, 2013, 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. 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.

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Board of Directors
Northern New England Passenger Rail Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern New England Passenger Rail Authority, as of June 30, 2013, 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.

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 6, the Schedule of Infrastructure of page 18, and the Schedule of Funding Progress on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macpage LLC

South Portland, Maine
October 9, 2013

Management's Discussion and Analysis

The management of the 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, 2013.

BASIC FINANCIAL STATEMENTS

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as 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 and liabilities, with the difference between the two 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 year 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

FINANCIAL HIGHLIGHTS

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

	2013	2012	Increase (Decrease)
Assets			
Cash and cash equivalents	**$ 1,492,767**	$ 1,255,352	$ 237,415
Grants receivable - federal government	**2,747,367**	2,412,030	335,337
Grants receivable - State of Maine	**266,460**		266,460
Trade receivable	**242,449**	295	242,154
Construction inventory	**1,360,299**	1,360,299	
Prepaid expenses and deposits	**781,494**	799,315	(17,821)
Capital assets, net of accumulated depreciation	**1,917,952**	1,915,009	2,943
Restricted cash	**891,602**	452,051	439,551
Due from State of Maine	**139,079**	127,591	11,488
Total Assets	**$ 9,839,469**	$ 8,321,942	$ 1,517,527
Liabilities			
Accounts payable	**$ 3,173,578**	$ 2,297,061	$ 876,517
Accrued vacation	**29,278**	25,436	3,842
Unearned revenue	**293,413**	293,413	
Other liabilities	**10,079**	54,286	(31,695)
Other post - employment benefits liability	**129,000**	105,000	24,000
Total Liabilities	**3,635,348**	2,775,196	860,152
Net Position			
Net investment in capital assets	**1,917,952**	1,915,009	2,943
Restricted for future rail construction	**2,361,555**	2,442,630	(81,075)
Unrestricted	**1,924,614**	1,189,107	735,507
	6,204,121	5,546,746	657,375
Total Liabilities and Net Position	**$ 9,839,469**	$ 8,321,942	$ 1,506,039

The change in net position restricted for future rail construction for the year ended June 30, 2013 is as follows:

Interest income earned	**$ 1,342**
Capacity improvement project expenses	**(82,417)**
Change in net position restricted for future rail construction	**$ (81,075)**

Management's Discussion and Analysis

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

	2013	2012	% Change
Operating Revenue	$ 9,129,401	$ 8,416,588	8.5%
Operating Expenses			
Commuter railroad and local subsidy expenses	13,712,293	12,679,774	8.1%
Wages and fringe benefits	475,002	459,470	3.4%
Marketing	548,386	478,939	14.5%
Station operations	553,608	508,131	8.9%
Food service	773,421	768,479	.6%
All other expenses	179,318	211,452	-15.2%
Total Operating Expenses	16,242,028	15,106,245	7.5%
Operating Loss	(7,112,627)	(6,689,657)	6.3%
Non-Operating Income	8,524,174	7,734,813	10.2%
Income Before Capital Grants	1,411,547	1,045,156	35.1%
Capital Grant Revenue (Expense)			
U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	6,565,904	11,281,063	-41.8%
Rail construction	(194,553)	(302,439)	-35.7%
Downeaster expansion	(5,597,553)	(11,166,717)	-49.9%
Portland area rail infrastructure project (Wye)		(73,243)	-100%
Portland layover facility	(748,565)	(313,147)	139%
Planning grant	(344,408)	(287,414)	19.8%
Other grant expenses	(30,162)	(64,206)	-53%
MBTA grant	(404,833)	(464)	87148.5%
	(754,170)	(926,567)	-18.6%
Change in Net Position	657,377	118,589	454.3%
Net Position, Beginning of Year	5,546,744	5,428,155	
Net Position, End of Year	$ 6,204,121	$ 5,546,744	

- Assets of $9,839,469 exceeded liabilities of $3,635,348 by $6,204,121 (net position) at the close of fiscal year 2013. Of these assets, $891,602 is restricted cash for future rail expansion and $1,917,952 relates to capital assets, which are primarily land in Brunswick and Portland and the train layover facility, and related equipment at Thompson's Point in Portland. Revenue increased $712,813 or 8.5% over FY 2012. The bulk of the increase was $700,381 in ticket revenue. Café revenue was also higher than the prior year. Parking lot revenue decreased slightly as compared to prior year. Commuter railroad and local subsidy expenses increased because of fuel costs. Food service expense increased marginally.

Management's Discussion and Analysis

- Cash and investments increased $237,415 from $1,255,352 at June 30, 2012 to $1,492,767 at June 30, 2013, while restricted cash increased $439,551 from $452,051 to $891,602 for the same period. The balance of restricted cash can fluctuate from year to year as the account is approved to be used for cash flow purposes and is subsequently reimbursed by the drawdown of federal grant funds.

- Construction inventory is unchanged from the previous year.

- Liabilities increased $860,152 from $2,775,196 at the close of fiscal year 2012 to $3,645,348 at the close of 2013 primarily due to an increase in accounts payable as a result of the timing of vendor payments and cash flow management.

- The State of Maine contributed approximately 30% of non-operating funds received for fiscal year 2013 in the form of federal grant matching requirements for operations and capital projects as well as bond funds for construction of the Layover Facility. Federal funding received related to both capital improvements and operations.

- Net capital grant revenue (expenses) were comparable to prior year at $926,567 in 2012 to $754,170 in 2013.

- The statement of cash flows, that identifies the sources and uses of cash activity for the fiscal year, indicates cash and cash equivalents increased by a net of $237,415. The increase is related to timing of vendor payments and cash management.

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

- NNEPRA purchased a parcel of land located on Church Street in Brunswick for $15,000 in fiscal year 2013 adding to the total land investment. The purchase is related to the Brunswick Layover construction project.

- 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 expanding to service the communities of Freeport and Brunswick. Fiscal year 2013 was the eleventh full year of passenger rail operations on the Portland to Boston route since commuter service began December 15, 2001. Ridership increased 5.3% from 528,292 passengers in fiscal year 2012 to 556,347 passengers in fiscal year 2013, making it the highest ridership year in the Downeaster's history.

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, 2013

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,492,767
Grants receivable - federal government	2,747,367
Grants receivable - State of Maine	266,460
Trade receivable	242,449
Construction inventory	1,360,299
Prepaid expenses and deposits	781,494
	6,890,836
Capital Assets	
Building and improvements	302,823
Heavy equipment	71,097
Office equipment	7,418
	381,338
Less accumulated depreciation	139,615
	241,723
Infrastructure	748,665
Land	927,564
	1,917,952
Other Assets	
Restricted cash	891,602
Due from State of Maine	139,079
	1,030,681
Total Assets	$ 9,839,469
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable - trade	$ 3,173,578
Accrued vacation	29,278
Unearned revenue	293,413
Other liabilities	10,079
	3,506,348
Non-Current Liabilities	
Other post - employment benefits liability	129,000
Total Liabilities	3,635,348
Net Position	
Net investment in capital assets	1,917,952
Restricted for future rail construction	2,361,555
Unrestricted	1,924,614
Total Net Position	6,204,121
Total Liabilities and Net Position	$ 9,839,469

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

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2013

Operating Revenue, Not Including State and Federal Assistance	
Ticket revenues	$ 8,117,252
Food service	611,813
Parking lot revenues	399,496
Advertising revenues	840
	9,129,401
Operating Expenses	
Commuter railroad and local subsidy expenses	13,712,293
Wages and fringe benefits	475,002
Administration	160,737
Marketing	548,386
Station operations	553,608
Food service	773,421
Depreciation	12,057
Board expenses	2,229
Miscellaneous	4,295
	16,242,028
Operating Loss	(7,112,627)
Non-Operating Income	
U.S. Department of Transportation, Federal Transit Administration grant	5,873,683
State of Maine grants	1,812,000
State of Maine bond revenue	784,279
Other income	50,042
Interest income	4,170
	8,524,174
Income Before Capital Grants	1,411,547
Capital Grant Revenue (Expense)	
U.S. Department of Transportation, Federal Transit Railroad Administration capital grant	6,565,904
Rail construction expenditures	(194,553)
Downeaster expansion	(5,597,553)
Portland layover facility	(748,565)
Planning grant	(344,408)
Other grant expenses	(30,162)
MBTA grant	(404,833)
	(754,170)
Change in Net Position	657,377
Net Position, Beginning of Year	5,546,744
Net Position, End of Year	$ 6,204,121

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

Statement of Cash Flows

Year Ended June 30, 2013

Cash flows from operations	
Receipts from operating revenues	$ 8,887,247
Payments to suppliers and vendors	(14,860,631)
Payments to employees	(471,160)
Net cash used in operations	(6,444,544)
Cash flows from non-capital financing activities	
U.S. Department of Transportation, Federal Transit Administration grants	4,484,708
U.S. Department of Federal Transit Railroad Administration grants	7,619,542
State of Maine grants	2,329,819
Net cash provided by non-capital financing activities	14,434,069
Cash flows from capital and related financing activities	
Purchase of capital assets	(15,000)
Net cash used in capital and related financing activities	(15,000)
Cash flows from investing activities	
Payments for rail construction	(7,320,074)
Interest income	4,170
Other income	50,040
Repayment of customer advances	(31,695)
Repayment of restricted cash	(439,551)
Net cash used in investing activities	(7,737,110)
Net increase in cash and cash equivalents	237,415
Cash and cash equivalents at beginning of year	1,255,352
Cash and cash equivalents at end of year	$ 1,492,767

Reconciliation of operating loss to net cash used in operating activities

Operating loss	$ (7,112,627)
Adjustments not affecting cash	
Depreciation	12,057
Change in operating assets and liabilities	
Increase in accounts receivable - operating revenues	(242,154)
Decrease in prepaid expenses	17,821
Increase in accounts payable	876,517
Increase in accrued vacation	3,842
Total adjustments	668,083
Net cash used in operating activities	$ (6,444,544)

Notes to Financial Statements

June 30, 2013

NOTE 1 – NATURE OF THE ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Entity

The Northern New England Passenger Rail Authority (NNEPRA) (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, and the Financial Accounting Standards Board (when applicable). 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, 2013

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

Revenue Recognition

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

Grants Receivable and Trade Receivable

Management believes that all grants receivable and trade receivable as of June 30, 2013 are fully collectible. Therefore, no allowance for doubtful accounts was recorded.

Construction Inventory

Construction inventory consists of rail track purchased for future projects and communication and signaling equipment held 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 and office equipment. 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

Restricted Cash and Restricted Net Position

Restricted cash and restricted net position are comprised of a grant from the State of Maine. The grant is intended to be utilized for expansion of passenger rail service north of Portland, Maine to Brunswick, Maine and for capacity improvements to the existing passenger rail service from Portland to Boston. Accordingly, this revenue is 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 62% of the Authority's funding is provided by federal and state capital and operating grants.

Notes to Financial Statements

June 30, 2013

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

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 November 2010, the GASB issued GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in GASB Statement No. 14. The new statement is effective for financial statement periods beginning after June 15, 2012. The adoption of this statement did not have a significant impact on the Authority's financial statements.

In June 2011, the GASB issued GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This statement will require amounts reported as deferred outflows and inflows of resources to be reported in a separate section following assets and liabilities, respectively, in a new statement of net position. The new statement is effective for periods beginning after December 15, 2011. The adoption of this statement did not have a significant impact on the Authority's financial statements.

Recent Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The new statement is effective for periods beginning after December 15, 2012. The Authority is currently assessing the impact of this statement on its financial statements.

In June 2012, the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement improves accounting and financial reporting by state and local governments for pensions. The new statement is effective for periods beginning after June 15, 2014. The Authority is currently assessing the impact of this statement on its financial statement.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Authority's deposits consist of checking accounts and a management account 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, 2013, none of the Authority's bank balance of $2,632,755 was exposed to custodial credit risk as the Authority has a letter of credit with the Federal Home Loan Bank of Pittsburgh for up to $3 million of deposits.

Notes to Financial Statements

June 30, 2013

NOTE 3 – CAPITAL ASSETS

Capital asset activity is as follows for the year ended June 30, 2013:

	Beginning Balance	Additions (Reductions)	Ending Balance
Capital assets:			
Building and improvements	$ 302,823		$ 302,823
Heavy equipment	71,097		71,097
Office equipment	7,418		7,418
Total capital assets	381,338		381,338
Less accumulated depreciation	127,558	$ 12,057	139,615
Total capital assets, net	253,780	12,057	241,723
Infrastructure	748,665		748,665
Land	912,564	15,000	927,564
Totals	$ 1,915,009	$ 2,943	$ 1,917,952

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance
Other Postretirement Benefits Liability	$ 105,000	$ 24,000	$ -	$ 129,000

NOTE 5 – NET POSITION

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

	Unrestricted	Restricted	Total
Operating revenue	$ 9,129,401		$ 9,129,401
Operating expenses	16,242,028		16,242,028
Operating loss	(7,112,627)		(7,112,627)
Non-operating income	8,522,832	$ 1,342	8,524,174
Income before capital grants	1,410,205	1,342	1,411,547
Capital grant revenue (expense)			
U.S. Department of Transportation, Federal Transit Administration Grant	6,565,904		6,565,904
Rail construction expenditures	(194,553)		(194,553)
Downeaster expansion	(5,597,553)		(5,597,553)
Portland layover facility	(748,565)		(748,565)
Planning grant	(344,408)		(344,408)
Other grant expenses	(30,162)		(30,162)
MBTA grant	(322,416)	(82,417)	(404,833)
	(671,753)	(82,417)	(754,170)
Change in net position	$ 738,452	$ (81,075)	$ 657,377

Notes to Financial Statements

June 30, 2013

NOTE 6 – PENSION PLAN

The Authority's employees participate in the Maine State Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan. The system covers all Authority employees and requires that participating employees contribute 7.65% of earnable compensation to the Plan, which provides retirement, disability and death benefits. The Authority contributes the remaining amount necessary to fund the Plan not contributed by members. The Authority contributed $58,582 to the Plan for the year ended June 30, 2013. Employees are eligible for normal retirement upon attaining age sixty and early retirement after completing 25 or more years of creditable service.

NOTE 7 – OTHER POST – EMPLOYMENT BENEFITS

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 January 2013.

Plan Descriptions

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	$ 22,000
Amortization of unfunded	15,000
Annual required contribution	$ 37,000

Notes to Financial Statements

June 30, 2013

NOTE 7 – OTHER POST – EMPLOYMENT BENEFITS – 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, 2013 was as follows:

Annual required contribution	$ 37,000
Interest on Net OPEB Obligation	3,000
Net OPEB Obligation adjustment	(8,000)
Actual contribution	(8,000)
Increase in Net OPEB Obligation	24,000
Net OPEB Obligation - beginning of year	105,000
Net OPEB Obligation - end of year	**$ 129,000**
Actuarial accrued liability	$ 279,000
Plan assets	
Unfunded actuarial accrued liability	$ 279,000
Covered payroll	$ 420,290
Unfunded actuarial accrued liability as a percentage of covered payroll	66%

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 Methods and Assumptions

Actuarial valuation date	June 30, 2012
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, 2013

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, 2013 was $449,100.

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

	Office	Train Facilities	Total
2014	$ 46,860	$ 358,786	$ 405,646
2015	47,460	343,786	391,246
2016	48,060	343,786	391,846
2017	48,660	171,893	220,553
	$ 191,040	$ 1,218,251	$ 1,409,291

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 approximately $4,163,000 for the year ended June 30, 2013.

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 mile, currently at 31.0 cents per mile per piece of equipment. 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 $522,418 per year. NNEPRA has not signed the fiscal year 2013 agreement as of the date of this report. As of June 30, 2013, the remaining commitment resulting from 2011, 2012 and 2013 agreements was $1,320,293.

Notes to Financial Statements

June 30, 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Downeaster Portland North Expansion Project

In June 2010, the Northern New England Passenger Rail 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 $34.8 million has been spent on the project to date and approximately $3,592,000 remains to be spent. Service between Brunswick and Boston began November 1, 2012. The expected completion date of the project is December 2014.

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 obtained 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 $536,000 has been spent on the project to date. The expected completion date of the project is December 2015.

Schedule of Infrastructure

June 30, 2013

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

June 30, 2013

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]
June 30, 2012	$ -	$ 279,000	$279,000	0%	$ 420,290	66%
March 31, 2011	-	213,000	213,000	0%	388,087	55%
March 31, 2011	-	198,000	198,000	0%	374,933	53%
March 31, 2010	-	146,000	146,000	0%	318,223	46%

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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, 2013, and our report thereon dated October 9, 2013, 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 21 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 9, 2013

Macpage LLC
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Schedule of Activities

Year Ended June 30, 2013

		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	$ 23,562,102	$ 9,129,401	$ 8,469,962	$ 6,565,904	$ 603,165
General Revenues:					
Interest and investment earnings					4,170
Other revenue					50,042
Total General Revenues					54,212
Change in Net Position					657,377
Net Position, Beginning of Year					5,546,744
Net Position, End of Year					$ 6,204,121

See accompanying independent auditors' report on additional information.