

NORTH COAST RAILROAD AUTHORITY

**FINANCIAL STATEMENTS**

For the Quarter Ended September 30, 2009

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ACCOUNTANTS' REPORT

To the Board of Directors  
North Coast Railroad Authority  
Ukiah, California

We have compiled the accompanying financial statements of North Coast Railroad Authority as of and for the quarter ended September 30, 2009, as listed in the table of contents in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

A statement of cash flows for the quarter ended September 30, 2009 has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.

Management has not presented the management's discussion and analysis information that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

We are not independent with respect to the North Coast Railroad Authority.

Aycock and Edgmon  
January 7, 2010

## **FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS**

September 30, 2009

**ASSETS**

## Current Assets

Cash and cash equivalents	\$	7,359	
Accounts receivable - Net		47,268	
Intergovernmental receivable		9,930,967	
Prepaid expenses		<u>3,285</u>	
Total Current Assets			\$ 9,988,879

## Noncurrent Assets

Capital assets, not depreciated		2,239,353	
Capital assets, depreciated		<u>28,587,108</u>	
Total Net Capital Assets			<u>30,826,461</u>

**TOTAL ASSETS****\$ 40,815,340****LIABILITIES**

## Current Liabilities

Current portion of capital lease payable	\$	1,485	
Loans payable		3,160,122	
Accounts payable		6,763,787	
Accrued expenses		3,652,148	
Deferred revenue		885,531	
Due to other governments		117,737	
Matured notes payable		<u>254,490</u>	
Total Current Liabilities			\$ 14,835,300

## Noncurrent Liabilities

Notes payable		290,805	
Capital lease payable		326	
Accrued interest payable		<u>464,415</u>	
Total Noncurrent Liabilities			<u>755,546</u>

**TOTAL LIABILITIES****15,590,846****NET ASSETS**

Invested in capital assets, net of related debt		30,826,461	
Restricted		-	
Unrestricted		<u>(5,601,967)</u>	

**TOTAL NET ASSETS****\$ 25,224,494**

The accountants' compilation report and notes to financial statements  
which are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Quarter Ended September 30, 2009

<b>OPERATING REVENUES</b>	
Property and operator leases	\$ 102,768
Permits and fees	7,538
Other revenue	<u>350</u>
Total Operating Revenues	110,656
<b>OPERATING EXPENSES</b>	
Salaries, wages, and benefits	72,292
Directors' fees	700
Accounting and auditing	8,382
Bad debt expense	-
Car hire expense	50,409
Communications	742
Contractual and other professional services	18,761
Depreciation	194,825
Insurance	9,583
Legal services	19,615
Office expense	2,078
Other operating expenses	421
Permits and licenses	-
Private car expense	693
Project costs	370,341
Property tax assessments	1,608
Rents and leases	3,240
Repairs and maintenance	5,892
Travel	750
Utilities	<u>7,266</u>
Total Operating Expenses	<u>767,598</u>
<b>OPERATING LOSS</b>	(656,942)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	-
Intergovernmental revenues	1,714,002
Interest expense	<u>(48,049)</u>
Total Nonoperating Revenues (Expenses)	<u>1,665,953</u>
<b>CHANGE IN NET ASSETS</b>	1,009,011
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>24,215,483</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 25,224,494</u>

The accountants' compilation report and notes to financial statements  
which are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## A. Financial Reporting Entity

The North Coast Railroad Authority (NCRA) is a political subdivision of the State of California, created in 1989 under the North Coast Railroad Authority Act, Government Code Sections 93000, et seq. The NCRA is governed by a seven-member Board of Directors appointed by the Board of Supervisors from Humboldt, Mendocino, Sonoma, and Marin Counties. The mission of the North Coast Railroad Authority is to provide a unified and revitalized rail infrastructure, meeting the freight and passenger needs of the region; a first class service working in partnership with others to build and sustain the economy of the region.

The accompanying financial statements include all organizations, activities, and functions that comprise the North Coast Railroad Authority. There are no component units (entities that are legally separate for which the NCRA is financially accountable) included within the reporting entity.

## B. Basic Financial Statements

The basic financial statements (Statement of Net Assets, Statement of Activities and Changes in Net Assets, and Statement of Cash Flows) report information on all of the enterprise activities of the NCRA. GASB Statement No. 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted, and unrestricted.

## C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the related liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The NCRA has elected not to follow subsequent private-sector guidance.

The NCRA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the NCRA are charges to customers for rents and leases. Operating expenses include the cost of maintaining the railroad property, car hire expense, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the NCRA uses restricted resources first, then unrestricted resources as they are needed.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

## D. Budget and Budgetary Accounting

The Board of Directors adopt a budget annually to be effective July 1<sup>st</sup> of the ensuing fiscal year. Budgets are adopted on a basis consistent with generally accepted accounting principles.

## E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the NCRA considers all pooled cash and investments as cash and cash equivalents. Restricted cash and investments are also treated as cash and cash equivalents.

## F. Capital Assets

Capital assets are recorded at cost. The capitalization threshold for all capital assets is \$5,000. Depreciation is based on the estimated useful lives of the assets, which range from five to fifteen years for equipment and rolling stock, and twenty-five to fifty years for buildings and improvements, using the straight-line method.

## G. Compensated Absences

All vested vacation and compensatory leave time is recognized as an expense and as a liability at the time the benefit vests. The liability for compensated absences is included as part of the accrued expenses payable from unrestricted current assets.

The Executive Director's contract provides payment upon termination of one-half of accumulated sick leave benefits subject to a maximum of thirty days at the current salary. A provision for this contingent liability has not been recognized in the accompanying financial statements.

## H. Net Assets

In the Statement of Net Assets, net assets are classified in the following categories:

Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

## I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 2 - CASH AND INVESTMENTS

The cash and cash equivalents as of September 30, 2009 are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents		
Unrestricted	\$	<u>7,359</u>

The carrying amounts of the NCRA's cash and investments as of September 30, 2009 consisted of the following:

Investments in External		
Investment Pool	\$	<u>7,359</u>

Investments in External Investment Pool

The NCRA participates in an external cash and investment pool sponsored by the County of Sonoma (County). The County pools these funds with those of other entities in the County and invests the cash. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptance, commercial paper, negotiable certificates of deposit, and repurchase to reverse repurchase agreements. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are shared proportionately by all funds in the pool.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The NCRA does not have a specific policy which relates to interest rate risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, the external investment pool with the County Treasury is not rated.

## NOTE 3 - RECEIVABLES

Receivables were comprised of the following as of September 30, 2009:

Accounts Receivable			
Rents and leases	\$	81,450	
Allowance for doubtful accounts		<u>(34,182)</u>	\$ 47,268
Intergovernmental Receivables			
Traffic Congestion Relief Projects			<u>9,930,967</u>
	\$		<u>9,978,235</u>

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 4 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended September 30, 2009 is as follows:

	Balance <u>Jul 1, 2009</u>	<u>Additions</u>	Retirements and Transfers	Balance <u>Sep 30, 2009</u>
Capital assets, not being depreciated				
Land and land rights	\$ 1,879,260	\$ -	\$ -	\$ 1,879,260
Work-in-process inventory	<u>360,093</u>	<u>-</u>	<u>-</u>	<u>360,093</u>
Total capital assets, not being depreciated	2,239,353	-	-	2,239,353
Capital assets, being depreciated				
Buildings and track structures	27,917,771	839,067	-	28,756,838
Machinery and equipment	<u>4,728,598</u>	<u>-</u>	<u>-</u>	<u>4,728,598</u>
Total capital assets, being depreciated	32,646,369	839,067	-	33,485,436
Less accumulated depreciation	<u>(4,703,503)</u>	<u>(194,825)</u>	<u>-</u>	<u>(4,898,328)</u>
Total capital assets, being depreciated, net	<u>27,942,866</u>	<u>644,242</u>	<u>-</u>	<u>28,587,108</u>
Total capital assets, net	<u>\$ 30,182,219</u>	<u>\$ 644,242</u>	<u>\$ -</u>	<u>\$30,826,461</u>

## NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities were comprised of the following as of September 30, 2009:

Car hire expense	\$ 2,930,091
Contingent liabilities	108,713
CRC Termination agreement	134,937
Interest payable within one year and in arrears	184,003
Judgments	224,703
Other accrued expenses	1,261
Past legal services	40,701
Salaries and benefits payable	<u>27,739</u>
	<u>\$ 3,652,148</u>

Car Hire Expense

Railcars that are owned by or leased by the Union Pacific Railroad Company (UP) are still stranded north of Willits. Car hire, the process where railroads pay each other for the use of their railcars, continues to accrue for the stranded railcars. The accrued car hire presented in the financial statements consists of accrued car hire for the period beginning January 1, 2000 through September 30, 2009 and includes a current provision of \$50,409.

Management is seeking a resolution of this matter with UP that would not require payment by NCRA, but would include forgiveness of UP environmental remediation investigation obligations to NCRA, sale of cars by UP to third parties, and purchase of the remaining cars by NCRA's operator.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 5 - ACCRUED LIABILITIES - CONTINUED

Judgments and Claims

The NCRA records a liability for claims when the probability that NCRA's assets will be impaired is likely and it is possible to reasonably estimate the amount of the loss. The liability included in the accompanying financial statements is for four claims to recover damages that have been filed against the NCRA. Management has estimated that the probable loss resulting from these judgments will be \$224,703.

The NCRA terminated a passenger operation agreement with California Redwood Coast Company (CRC) and approved a claim to CRC for \$134,937. The settlement calls for payment of \$134,937 to CRC with interest at a rate of 7% beginning July 1, 2005. The accrued interest recognized in the accompanying financial statements as of September 30, 2009 is \$40,144, with a current provision of \$2,361.

Interest Payable

The interest payable consists primarily of accrued interest of \$184,003 on the matured notes that are described in more detail in Note 8, and the current portion of interest payable on other long-term debt obligations.

## NOTE 6 - DUE TO OTHER GOVERNMENTS

The NCRA has received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Management has made a provision for amounts due to other governments of \$117,737 that is comprised of the following:

Disallowed Proposition 116 costs	\$ 113,000
Disallowed TCRP Project 32.5 costs	550
Refundable interest earned under Program Supplement 01A0045	<u>4,187</u>
	<u>\$ 117,737</u>

Subsequent audits could generate expenditure disallowance under terms of the agreements, however, management believes that any required reimbursement will not be material.

## NOTE 7 - BRIDGE FINANCING

NCRA entered into an agreement on September 12, 2007 with the Northwestern Pacific Railroad Company (NWP) to secure bridge financing for the TCRP projects. The agreement provides for loans as necessary to pay vendors and perform other obligations for work authorized under TCRP, in an amount not to exceed \$5 million outstanding at any one time. The loan proceeds are due at such time as the expenditures for which the loan funds were used are reimbursed by the funding agencies. Interest on any loan funds advanced are at the rate paid by NWP for such funds. All outstanding principal and interest shall be due and payable no later than September 12, 2010. The loan funds advanced are secured by machinery and equipment.

As of the quarter ended September 30, 2009, the outstanding loan balance was \$2,788,000. Accrued interest as of September 30, 2009 of \$374,167 includes interest accrued on these funds during the quarter of \$38,111.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

**NOTE 8 - LONG-TERM DEBT**

The following is a schedule of the changes in the long-term debt for the quarter ended September 30, 2009:

	Balance Jul 1, 2009	Principal Additions	Principal Reductions	Balance Sep 30, 2009	Classification	
					Current Portion	Long-Term Portion
Humboldt Redwood Co.	\$ 72,000	\$ -	\$ -	\$ 72,000	\$ 72,000	\$ -
Humboldt Redwood Co.	54,000	-	-	54,000	54,000	-
TransDynamics Corporation	124,000	-	-	124,000	-	124,000
Sonoma-Marín Area Rail Transit District (SMART)	128,490	-	-	128,490	128,490	-
Humboldt Bay Harbor Recreation and Conservation District	166,805	-	-	166,805	-	166,805
Total	<u>\$ 545,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 545,295</u>	<u>\$ 254,490</u>	<u>\$ 290,805</u>

**A. Humboldt Redwood Company**

NCRA entered into loan agreements with Pacific Lumber Company (now Humboldt Redwood Company) under two separate agreements. The first loan agreement dated November 7, 1996 for \$80,000 called for the principal and interest at a rate of 6.0% to be paid on the maturity date of November 8, 2006. The accrued interest as of September 30, 2009 of \$56,981 includes a current provision of \$1,080. The loan is secured by gravel rights.

The second loan agreement dated November 8, 1996 for \$60,000 called for the principal and interest at a rate of 6.0% to be paid on the maturity date of November 8, 2006. The accrued interest as of September 30, 2009 of \$45,103 includes a current provision of \$810.

**B. TransDynamics Corporation and Golden Age Rail Equipment Corporation**

On March 15, 1997, NCRA entered into loan agreements with TransDynamics Corporation and Golden Age Rail Equipment Corporation for the purchase of four (4) passenger cars and one (1) power car with a total loan obligation amount of \$405,000. The agreements did not provide for interest. On January 26, 2001, TransDynamics Corporation and Golden Age Rail Equipment Corporation renegotiated these notes which resulted in an acceptance of \$320,000 as debt relief with the stipulation that an additional \$124,000 would be paid with interest at 7% payable from cash proceeds from the sale of the passenger cars and power car. One passenger car, the Golden State, was sold on May 15, 2008 for \$5,250. A payment on this obligation from the proceeds of the sale was not made as of September 30, 2009. The note is secured by the three (3) passenger cars and power car. The accrued interest as of September 30, 2009 of \$75,738 includes a current provision of \$2,170.

**C. Sonoma-Marín Area Rail Transit District (SMART)**

The Sonoma-Marín Area Rail Transit District (SMART) succeeded in interest to the Northwestern Pacific Railroad Authority (NWPRA) as payee to a note agreement that provided an advance up to \$250,000 for the purpose of developing plans, specifications, and bid documents to repair the Haystack Landing Swing Bridge. An advance of \$175,185 was made to the NCRA on November 29, 2001 for this purpose. The terms of the agreement called for repayment of the loan in \$50,000 annual installments, including interest at a rate of 4.47%, due each April. The note matured on April 30, 2006. The accrued interest as of September 30, 2009 is \$24,261. The note is secured by a deed of trust on the Ukiah property.

The agreement provides that the NCRA will be given in-kind credit against all amounts owed for the actual out-of-pocket-costs incurred by the NCRA or its contractors in making improvements to the corridor that are of utility to SMART. Subsequent to September 30, 2009, NCRA was given credit for the outstanding loan balance and accrued interest.

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 8 - LONG-TERM DEBT - CONTINUED

## D. Humboldt Bay Harbor, Recreation and Conservation District

On October 13, 2004, the NCRA entered into a loan agreement with the Humboldt Bay Harbor, Recreation and Conservation District to provide operating capital. The promissory note calls for quarterly interest payments at a rate of 8%, commencing on April 1, 2005. The note matures on December 31, 2009, at which time the unpaid principal and interest is due. The accrued interest as of September 30, 2009 is \$12,360. The note is secured by leases held by the NCRA.

Subsequent to September 30, 2009, the repayment terms were renegotiated. The new terms call for one-half of the outstanding balance to be paid by December 31, 2009 and the other one-half by July 1, 2010.

## E. Option B Interest Payable

Option B interest consists of interest, at a rate of 7%, due to various contractors and vendors on the principal amount stated at the date the final debt was incurred. The agreements call for eleven (11) annual installments payable on July 1 of each year, commencing on July 1, 2001.

Future minimum payments at September 30, 2009 are as follows:

Year Ended <u>June 30,</u>	
2010	\$ 5,151
2011	7,255
2012	<u>7,256</u>
	<u>\$ 19,662</u>

## NOTE 9 - CAPITAL LEASE

The NCRA entered into a lease agreement for financing the acquisition of office equipment. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments. The following is a detail of the capital lease as of September 30, 2009 :

Copier	\$ 6,435
Accumulated depreciation	<u>(5,470)</u>
	<u>\$ 965</u>

Future minimum payments under this lease as of September 30, 2009 are as follows:

Year Ended <u>June 30,</u>	
2010	\$ 1,670
2011	<u>333</u>
Future minimum lease payments	2,003
Less amount representing interest	<u>(192)</u>
Present value of minimum lease payments	<u>\$ 1,811</u>

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2009

## NOTE 10 - NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts as of September 30, 2009 are as follows:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 30,826,461
Restricted	-
Unrestricted	<u>(5,601,967)</u>
Total Net Assets	<u>\$ 24,224,494</u>

## NOTE 11 - EMPLOYEE RETIREMENT PLAN

## A. Plan Description

North Coast Railroad Authority contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer, defined benefit public employee retirement system that acts as a common investment and administrative agent for participating entities within the State of California. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

## B. Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in social security), and the NCRA is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration.

The contribution requirements of the plan members are established by state statute. The NCRA's contributions to CalPERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$43,414, \$35,821, and \$26,982, respectively, and equal the total required contributions for each year.

## NOTE 12 - RISK MANAGEMENT

The NCRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCRA maintains commercial coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the NCRA. Settled claims have not exceeded this coverage in any of the past three years.

The NCRA is directly and indirectly involved in various claims, legal actions and complaints relating to environmental remediation and contractual obligations. The amount of ultimate liability, if any, to the NCRA is not determinable at this time. Management believes that the ultimate resolution of these claims and litigations will not have an adverse material effect on the financial condition of the NCRA.

**NOTES TO FINANCIAL STATEMENTS**

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September 30, 2009

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**NOTE 13 - COMMITMENTS**

The July 14, 1999 Consent Decree and Stipulated Judgment entered into by the California Department of Fish and Game, California Department of Toxic Substance Control, California Regional Water Quality Control Board, and NCRA called for certain corrective actions, actions to eliminate barriers to fish, site investigation and remediation, compliance monitoring, and payment of administrative and enforcement costs. The administrative and enforcement costs totaled \$163,319 and is included as an accrued liability in the accompanying financial statements. The NCRA was allocated a total of \$4.1 million in Traffic Congestion Relief funds under Program Supplement #32.5, North Coast Railroad, Environmental Remediation Projects, to perform the various actions committed to under the Consent Decree. Approximately \$1.2 million has been expended to date with the remainder committed to site characterization plans and soil and groundwater investigations and remediation. Management does not expect that the costs will exceed the remaining funds available under Program Supplement #32.5.

**NOTE 15 - GOING CONCERN**

The North Coast Railroad is economically dependent on federal and state funds for rail line rehabilitation projects. Continued funding by federal and state agencies is subject to approval by those agencies. The rehabilitation projects are necessary to upgrade the rail line to meet Federal Railroad Administration standards before NCRA's operator can begin operations. Revenue generated from the Operator Agreement is expected to provide a source of unrestricted funds that can be used to reduce NCRA's debt obligations. Consequently, continued funding to upgrade the rail lines is necessary for NCRA to meet its debt obligations. The financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if NCRA is not able to fund the rehabilitation projects.