



MEMO

To: NCRA Board of Directors
From: Executive Director Mitch Stogner
Date: May 12, 2010
Subject: **Agenda Items – E.1 – January through March (3rd Quarter) Fiscal Year 2009- 2010 Accrual Financial Statements**

Attached for your reference is the January through March 2010 NCRA Financial Statements that were compiled and submitted to NCRA by Aycock & Edgmon CPA's.

Stacey Edgmon is available to make a brief presentation and answer any questions.

Staff Recommendation: Approve the 3rd Quarter Fiscal Year 2009- 2010 accrual financial statements.

NORTH COAST RAILROAD AUTHORITY

FINANCIAL STATEMENTS

For the Three Quarters Ended March 31, 2010

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March 31, 2010

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AYCOCK AND EDGMON

CERTIFIED PUBLIC ACCOUNTANTS



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 three quarters ended March 31, 2010, as listed in the table of contents, and the accompanying supplemental information, which is presented only for supplemental analysis purposes, 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.

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 & Edgmon

Aycock and Edgmon
May 5, 2010

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

March 31, 2010

ASSETS**Current Assets**

Cash and cash equivalents	\$ 116,079	
Accounts receivable - Net	33,698	
Intergovernmental receivable	7,068,958	
Prepaid expenses	<u>16,232</u>	
Total Current Assets		\$ 7,234,967

Noncurrent Assets

Capital assets, not depreciated	2,239,353	
Capital assets, depreciated	<u>29,406,811</u>	
Total Net Capital Assets		<u>31,646,164</u>

TOTAL ASSETS**\$ 38,881,131****LIABILITIES****Current Liabilities**

Current portion of capital lease payable	\$ 452	
Loans payable	3,160,122	
Accounts payable	4,344,756	
Accrued expenses	5,027,183	
Deferred revenue	1,003,080	
Due to other governments	134,737	
Matured notes payable	<u>126,000</u>	
Total Current Liabilities		\$ 13,796,330

Noncurrent Liabilities

Notes payable	211,927	
Capital lease payable	326	
Accrued interest payable	<u>541,921</u>	
Total Noncurrent Liabilities		<u>754,174</u>

TOTAL LIABILITIES**14,550,504****NET ASSETS**

Invested in capital assets, net of related debt	31,646,163	
Restricted	-	
Unrestricted	<u>(7,315,536)</u>	

TOTAL NET ASSETS**\$ 24,330,627**

See 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 Three Quarters Ended March 31, 2010

OPERATING REVENUES	
Property and operator leases	\$ 385,284
Permits and fees	22,560
Other revenue	435
Total Operating Revenues	<u>408,279</u>
OPERATING EXPENSES	
Salaries, wages, and benefits	201,654
Directors' fees	3,100
Accounting and auditing	62,737
Bad debt expense	-
Car hire expense	150,130
Communications	5,011
Contractual and other professional services	61,460
Depreciation	584,474
Insurance	26,874
Legal services	62,457
Office expense	11,139
Other operating expenses	58,885
Permits and licenses	15,429
Private car expense	5,521
Project costs	2,194,596
Property tax assessments	2,033
Rents and leases	9,873
Repairs and maintenance	10,321
Travel	1,709
Utilities	34,789
Total Operating Expenses	<u>3,502,192</u>
OPERATING LOSS	(3,093,913)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	1,008
Intergovernmental revenues	4,562,798
Interest expense	(137,600)
Judgements or claim settlements	(580)
Forgiveness of debt	152,751
Loss on disposal of assets	-
Total Nonoperating Revenues (Expenses)	<u>4,578,377</u>
CHANGE IN NET ASSETS	1,484,464
NET ASSETS - BEGINNING OF YEAR	<u>22,846,163</u>
NET ASSETS - END OF YEAR	<u>\$ 24,330,627</u>

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

STATEMENT OF CASH FLOWS

For the Three Quarters Ended March 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 398,336
Cash received from operator	180,000
Cash paid to suppliers for goods and services	(7,403,063)
Cash paid to employees for services	<u>(212,535)</u>
Net Cash Used by Operating Activities	(7,037,262)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash paid on amounts due to claimants	<u>(580)</u>
Net Cash Flows Used by Noncapital Financing Activities	(580)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash received from other governments under grants and contracts	9,015,962
Cash paid to acquire capital assets	(2,048,419)
Cash paid to reduce debt on capital leases and notes payable	(108,172)
Cash paid to reduce debt on other creditors	(4,680)
Cash paid on interest due	<u>(35,057)</u>
Net Cash Provided by Capital and Related Financing Activities	6,819,634
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,697</u>
Net Cash Flows Provided by Investing Activities	<u>1,697</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,511)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>332,590</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 116,079</u>
FINANCIAL STATEMENT PRESENTATION	
Cash and cash equivalents	<u>\$ 116,079</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (3,093,913)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	584,474
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	28,819
(Increase) decrease in prepaid expenses	(6,081)
Increase (decrease) in accounts payable	(4,828,667)
Increase (decrease) in deferred revenue	141,238
Increase (decrease) in accrued expenses	136,868
Net Cash Used by Operating Activities	<u>\$ (7,037,262)</u>

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

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 nine-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.

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 1st 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

March 31, 2010

NOTE 2 - CASH AND INVESTMENTS

The cash and cash equivalents as of March 31, 2010 are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents		
Unrestricted	\$	<u>116,079</u>

The carrying amounts of the NCRA's cash and investments as of March 31, 2010 consisted of the following:

Investments in External		
Investment Pool	\$	<u>116,079</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 March 31, 2010:

Accounts Receivable			
Rents and leases	\$	67,880	
Allowance for doubtful accounts		<u>(34,182)</u>	\$ 33,698
Intergovernmental Receivables			
Traffic Congestion Relief Projects			<u>7,068,958</u>
	\$		<u><u>7,102,656</u></u>

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

NOTE 4 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended March 31, 2010 is as follows:

	Balance Jul 1, 2009	Additions	Retirements and Transfers	Balance Mar 31, 2010
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	2,048,419	-	29,966,190
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	2,048,419	-	34,694,788
Less accumulated depreciation	<u>(4,703,503)</u>	<u>(584,474)</u>	<u>-</u>	<u>(5,287,977)</u>
Total capital assets, being depreciated, net	<u>27,942,866</u>	<u>1,463,945</u>	<u>-</u>	<u>29,406,811</u>
Total capital assets, net	<u>\$ 30,182,219</u>	<u>\$ 1,463,945</u>	<u>\$ -</u>	<u>\$ 31,646,164</u>

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities were comprised of the following as of March 31, 2010:

Car hire expense	\$ 3,029,813
Contingent liabilities	99,799
Interest payable within one year and in arrears	114,216
Judgments	1,723,502
Other accrued expenses	1,262
Past legal services	40,701
Salaries and benefits payable	17,890
	<u>\$ 5,027,183</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 March 31, 2010 and includes a current provision of \$150,130.

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

March 31, 2010

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 five claims to recover damages that have been filed against the NCRA. Management has estimated that the probable loss resulting from these judgments will be \$1,723,502. The amount included in these financial statements includes an estimated liability of \$1,250,000 for the installation and completion of the quiet zone improvements stipulated under the Novato Consent Decree and \$100,000 for the sound attenuation improvements also stipulated under this Decree.

Interest Payable

The interest payable consists primarily of accrued interest of \$114,216 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 \$134,737 that is comprised of the following:

Disallowed Proposition 116 costs	\$ 130,000
Disallowed TCRP Project 32.5 costs	550
Refundable interest earned under Program Supplement 01A0045	<u>4,187</u>
	<u>\$ 134,737</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 March 31, 2010, the outstanding loan balance was \$2,788,000. Accrued interest as of March 31, 2010 of \$408,055 includes interest accrued on these funds during the quarter of \$29,217.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

NOTE 8 - LONG-TERM DEBT

The following is a schedule of the changes in the long-term debt for the three quarters ended March 31, 2010:

	Balance Jul 1, 2009	Principal Additions	Principal Reductions	Balance Dec 31, 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	-	-	-
Humboldt Bay Harbor Recreation and Conservation District	166,804	-	78,877	87,927	-	87,927
Total	<u>\$ 545,294</u>	<u>\$ -</u>	<u>\$ 207,367</u>	<u>\$ 337,927</u>	<u>\$ 126,000</u>	<u>\$ 211,927</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 March 31, 2010 of \$59,141 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 March 31, 2010 of \$46,723 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 March 31, 2010. The note is secured by the three (3) passenger cars and power car. The accrued interest as of March 31, 2010 of \$80,078 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 agreement provided 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. On October 23, 2009, NCRA was given credit for the outstanding loan balance and accrued interest.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

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 called for quarterly interest payments at a rate of 8%, commencing on April 1, 2005. The note matured on March 31, 2010 at which time 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. The accrued interest as of March 31, 2010 is \$1,982. The note is secured by leases held by the NCRA.

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 March 31, 2010 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 March 31, 2010 :

Copier	\$ 6,435
Accumulated depreciation	<u>(6,121)</u>
	<u>\$ 314</u>

Future minimum payments under this lease as of March 31, 2010 are as follows:

Year Ended <u>June 30,</u>	
2010	\$ 501
2011	<u>334</u>
Future minimum lease payments	835
Less amount representing interest	<u>(57)</u>
Present value of minimum lease payments	<u>\$ 778</u>

NOTES TO FINANCIAL STATEMENTS

March 31, 2010

NOTE 10 - NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts as of March 31, 2010 are as follows:

Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 31,646,164
Restricted	-
Unrestricted	<u>(7,315,537)</u>
Total Net Assets	<u>\$ 24,330,627</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.

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.

SUPPLEMENTAL INFORMATION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
AGENCY - ACTUAL AND BUDGET**

For the Three Quarters Ended March 31, 2010

	<u>Actual</u>	<u>FY2010 Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Real estate leases	\$ 251,409	\$ 222,000	\$ 29,409
Equipment leases	133,875	210,000	(76,125)
Operator leases	-	240,000	(240,000)
Permits and fees	22,560	9,000	13,560
Other revenue	<u>435</u>	<u>1,000</u>	<u>(565)</u>
Total Operating Revenues	408,279	682,000	(273,721)
OPERATING EXPENSES			
Salaries, wages, and benefits	201,654	268,800	67,146
Directors' fees	3,100	14,000	10,900
Accounting and auditing	62,737	68,000	5,263
Car hire expense	150,130	-	(150,130)
Communications	5,011	7,000	1,989
Contractual and other professional services	61,460	102,000	40,540
Depreciation	584,474	780,000	195,526
Insurance	26,874	37,000	10,126
Legal services	62,457	125,000	62,543
Office expense	11,139	17,900	6,761
Other operating expenses	58,885	9,100	(49,785)
Permits and licenses	15,429	8,000	(7,429)
Private car expense	5,521	10,500	4,979
Property tax assessments	2,033	2,800	767
Rents and leases	9,873	14,000	4,127
Repairs and maintenance	10,321	14,100	3,779
Travel	1,709	4,000	2,291
Utilities	<u>34,789</u>	<u>38,000</u>	<u>3,211</u>
Total Operating Expenses	<u>1,307,596</u>	<u>1,520,200</u>	<u>(212,604)</u>
OPERATING LOSS	(899,317)	(838,200)	(61,117)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	92	3,000	(2,908)
Intergovernmental revenues	-	5,000	(5,000)
Interest expense	(137,600)	(60,000)	(77,600)
Judgements or claim settlements	(580)	-	(580)
Forgiveness of debt	152,751	-	152,751
Loss on disposal of assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>14,663</u>	<u>(52,000)</u>	<u>66,663</u>
CHANGE IN NET ASSETS	<u><u>\$ (884,654)</u></u>	<u><u>\$ (890,200)</u></u>	<u><u>\$ 5,546</u></u>

See accountants' compilation report.