

# North Coast Railroad Authority

## Financial Statements

*For the year ended June 30,  
2018*



**PISENTI & BRINKER** LLP  
Certified Public Accountants & Advisors

An independently owned member  
RSM US Alliance



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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North Coast Railroad Authority ("NCRA"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise NCRA'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 responsibility 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.

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NCRA as of June 30, 2018, 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.

## **Independent Auditor's Report (continued)**

### ***Emphasis of a Matter***

The accompanying financial statements have been prepared assuming that NCRA will continue as a going concern. As discussed in Note N to the financial statements, NCRA has suffered recurring losses from operations and is economically dependent on federal and State funding to continue operating. Additionally, the State Legislature passed a bill requiring NCRA to work with the State to determine the most appropriate way to dissolve NCRA and to dispense with its assets and liabilities. This raises substantial doubt about NCRA's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note N. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### ***Other Matters***

#### ***Required Supplementary Information***

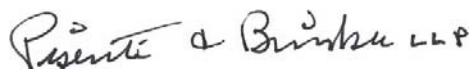
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of net pension liability and contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on NCRA's basic financial statements. The schedule of expenditures of federal awards for the year ended June 30, 2018, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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. Such 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019, on our consideration of NCRA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCRA's internal control over financial reporting and compliance.



Santa Rosa, California  
April 24, 2019

## **Management's Discussion and Analysis**

As management of the North Coast Railroad Authority ("NCRA"), we offer readers of NCRA's basic financial statements this narrative overview and analysis of the financial activities of NCRA for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with NCRA's basic financial statements and the accompanying notes to the basic financial statements.

### **Reporting Entity**

NCRA was formed in 1989 by the California Legislature to ensure the continuation of railroad service in Northwestern California. NCRA provides a unified and revitalized rail infrastructure, meeting the freight and passenger service needs in Humboldt, Mendocino, Sonoma, Marin, and Napa Counties. With the formation of NCRA, the state also created the Northwestern Pacific Railroad Authority ("NWPRRA") to own the right of way ("ROW") in Sonoma County. The ROW owned by NWPRRA was transferred to Sonoma-Marina Area Rail Transit ("SMART") in March 2004, with NCRA holding the exclusive rights for freight service through Sonoma County to a feeder track in Schellville, which runs through Napa County to the Union Pacific mainline in Fairfield-Suisun City.

Please refer to the reporting entity definition within the notes to the basic financial statements for additional detail.

### **Financial Highlights**

NCRA's financial status decreased overall during the 2018 fiscal year due to the continuing fact that the costs to administer NCRA and maintain the rail line exceed the revenue that can currently be generated from the lease of property and equipment. Total net position decreased by \$2,191,776 which includes a loss from operations of \$1,327,172 that is offset by a gain on the sale of an easement of \$1,289,000. The net position invested in capital assets decreased by a net amount of \$585,616.

The loss from operations results from insufficient operating revenue from rental of NCRA's property to cover the costs associated with administering and maintaining the rail system during the fiscal year ended June 30, 2018.

## Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to NCRA's basic financial statements and provide analysis of some key data presented in the financial statements. NCRA's basic financial report is comprised of three components: 1) Management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements.

### *Management's Discussion and Analysis*

Management's discussion and analysis is intended to provide the narrative overview that users need to interpret the basic financial statements. Management's discussion and analysis also provides analysis of some key data presented in the basic financial statements.

### *Basic Financial Statements*

NCRA is engaged only in the business activities related to maintenance and capital repairs of a rail system. NCRA uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America, and applies Governmental Accounting Standards Board ("GASB") statements. The focus of an enterprise fund is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. The basic financial statements presented are the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

### *Notes to the Basic Financial Statements*

The notes to the basic financial statements, as listed in the table of contents, provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### *Financial Analysis*

Net position may serve over time as a useful indicator of NCRA's financial position. However, other factors may need to be considered such as changes in economic conditions and state and federal legislation.

At June 30, 2018, NCRA had an unrestricted deficit of \$10,372,157. The portion of net position which is invested in capital assets (e.g., land, buildings, machinery, and equipment) is \$26,697,825. NCRA uses these capital assets to contract with a private operator to provide rail services to its customers; consequently, these assets are not available for future spending.

**Management's Discussion and Analysis****Year Ended June 30, 2018****Overview of the Basic Financial Statements (continued)**Condensed Statement of Net Position

	June 30, 2018	June 30, 2017	Increase/ (Decrease)	Percentage Change
Current assets	\$ 227,342	\$ 494,770	\$ (267,428)	(54) %
Capital assets, net	26,697,825	27,283,441	(585,616)	(2) %
Total assets	26,925,167	27,778,211	(853,044)	(3) %
Deferred outflow - pension	66,319	77,680	(11,361)	(15) %
Current liabilities	5,950,629	4,682,605	1,268,024	27 %
Noncurrent liabilities	4,708,552	4,645,401	63,151	1 %
Total liabilities	10,659,181	9,328,006	1,331,175	14 %
Deferred inflow - pension	6,637	10,441	(3,804)	(36) %
Invested in capital assets	26,697,825	27,283,441	(585,616)	(2) %
Unrestricted deficit	(10,372,157)	(8,765,997)	(1,606,160)	(18) %
Total net position	\$ 16,325,668	\$ 18,517,444	\$ (2,191,776)	(12) %

The unrestricted deficit results primarily from accumulated losses incurred beginning with the fiscal year ended June 30, 1996. Then, in early 1998, operations were terminated as a result of significant storm damage followed by the implementation of Emergency Order 21 (EO21) by the Federal Railway Administration ("FRA"). On May 5, 2011, the FRA lifted EO21 which permitted NCRA's operator, Northwestern Pacific Railroad Co. ("NWP Co."), to operate freight trains on a 62 mile stretch of railroad from Brazos Junction to Windsor. NWP Co. commenced commercial freight service on July 13, 2011 between Lombard and Windsor. NCRA continues to incur an increase in the unrestricted deficit while it is unable to generate sufficient operating revenue to cover the costs of administering and maintaining its property.



**Management's Discussion and Analysis****Year Ended June 30, 2018****Overview of the Basic Financial Statements (continued)**Condensed Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30,	2018	2017	Increase/ (Decrease)	Percentage Change
<b>Revenues</b>				
Operating revenues	\$ 727,874	\$ 575,775	\$ 152,099	26 %
Nonoperating revenues	3,659	348,099	(344,440)	(99) %
Gain on sale of easement	1,289,000	-	1,289,000	100 %
<b>Total revenues</b>	<b>2,020,533</b>	<b>923,874</b>	<b>1,096,659</b>	<b>119 %</b>
<b>Expenses</b>				
Operating expenses, excluding depreciation	758,815	643,992	114,823	18 %
Depreciation expense	1,296,231	1,314,859	(18,628)	(1) %
Nonoperating expenses	2,157,263	253,484	1,903,779	751 %
<b>Total expenses</b>	<b>4,212,309</b>	<b>2,212,335</b>	<b>1,999,974</b>	<b>90 %</b>
Change in net position	(2,191,776)	(1,288,461)	(903,315)	70 %
Net position at beginning of year	18,517,444	19,805,905	(1,288,461)	(7) %
Net position at end of year	\$ 16,325,668	\$ 18,517,444	\$ (2,191,776)	(12) %

Revenues and Expenses

Operating revenues consist primarily of charges for property and equipment leases. During the fiscal year ended June 30, 2018, NCRA experienced an increase in operating revenues of \$152,099, or about 26%. Revenue from property leases, excluding equipment leases, increased from \$233,457 in fiscal year 2017 to \$355,314 in fiscal year 2018, an increase of \$121,857. Beginning in 2013, NCRA engaged a real estate service firm to identify encroachments that have escaped billing in order to pursue additional revenue opportunities along the corridor. The increase in revenue results from renewed and new agreements executed during the year as identified by NCRA. NCRA recognized a total of \$180,460 for the fiscal year 2018 relating to operational rent for the rail line. Operating revenue from equipment leases was \$154,380 for fiscal year 2018.

Non-operating revenue decreased by \$344,440 compared with the prior year because there was a one-time legal settlement received in fiscal year 2017.

**Management's Discussion and Analysis****Year Ended June 30, 2018****Overview of the Basic Financial Statements (continued)****Revenues and Expenses (continued)**

The largest component of operating expenses is personnel costs of \$225,834 for the fiscal year ended June 30, 2018. Legal fees comprised \$162,009 for the fiscal year ended June 30, 2018. Other professional fees for accounting and auditing services comprised \$81,148 for the fiscal year ended June 30, 2018. These costs comprise 62% of the operating costs for the fiscal year.

Non-operating expense increased from the prior fiscal year by \$1,903,779 due to a loss on contingency related to a probable legal settlement.

**Capital Asset and Debt Administration***Capital Assets*

NCRA's investment in capital assets is comprised of the following:

	June 30, 2018	June 30, 2017	Percentage Change
Land	\$ 1,773,960	\$ 1,773,960	-
Work-in-progress	211,521	211,521	-
Building and track structures	36,090,390	36,090,390	-
Machinery and equipment	4,420,914	4,420,914	-
Land improvements	956,180	245,565	289 %
Accumulated depreciation	(16,755,140)	(15,458,909)	8 %
<b>Total</b>	<b>\$26,697,825</b>	<b>\$27,283,441</b>	<b>(2) %</b>

The overall decrease in capital assets resulted primarily from depreciation expense of \$1,296,231 in fiscal year 2018. The increase in land improvements consists of \$710,615 in engineering and surveying improvements at the Ukiah Depot site.

Additional information on NCRA's capital assets can be found in Note E to the financial statements.

**Management's Discussion and Analysis****Year Ended June 30, 2018****Capital Asset and Debt Administration (continued)***Long-Term Debt*

At the end of the current fiscal year, NCRA had a total of \$2,687,593 in outstanding notes payable consisting of a loan from a private company and a loan agreement with a government agency. \$105,472 of the \$2,687,593 is a current obligation.

	June 30, 2018	June 30, 2017	Percentage Change
Railroad Rehabilitation & Improvement Financing	\$ 2,563,593	\$ 2,666,262	(4) %
Transdynamics Corporation	124,000	124,000	- %
<b>Total</b>	<b>\$ 2,687,593</b>	<b>\$ 2,790,262</b>	<b>(4) %</b>

Accrued interest was as follows at June 30:

	2018	2017
Anderson Penna	\$ 156,221	\$ 139,140
Transdynamics Corporation	151,688	143,008
Northwestern Pacific Railroad Company		
Advances payable	1,762,093	1,621,058
Balfour Beatty Rail Inc.	296,036	296,036
<b>Total</b>	<b>\$ 2,366,038</b>	<b>\$2,199,242</b>
<b>Current portion of accrued interest</b>	<b>\$ 452,257</b>	<b>\$ 435,176</b>

Additional information on NCRA's long-term debt can be found in Note J to the financial statements.

### **Factors Affecting Future Periods**

The State legislature has approved, and Governor Brown signed into law SB1029 (McGuire) as amended August 24, 2018. This legislation requires the state Transportation Agency and the state Resources Agency to conduct an assessment to determine the most appropriate way to dissolve NCRA and to dispense with its assets and liabilities. The bill requires these state cabinet level agencies to complete their findings and report back to the legislature no later than July 1, 2020. NCRA is required to cooperate with the assessment and to provide access to all NCRA records requested by the State agencies conducting the assessment.

The bill specifically authorizes the continuation of freight service from Lombard to Windsor and appropriates \$4 million from the state Public Transportation Account to be used as follows:

“\$4 million shall be allocated to SMART for the acquisition of freight rights and equipment from the NWP Co. to ensure efficient provision of goods movement requirements in the corridor in the context of growing passenger service. Following a signed baseline agreement between the state Transportation Agency and SMART that articulates deliverables, the anticipated expenditure schedule, and reporting requirements, the Secretary of Transportation may transfer these moneys to SMART pursuant to the provisions of the baseline agreement. These moneys shall not be transferred to SMART for the acquisition of freight rights and equipment from NWP Co. unless the terms and conditions of the baseline agreement have been approved by the Secretary of Transportation and the Department of Finance. If these moneys are not transferred to SMART within two-years of the chaptering of this act, these moneys shall be returned to the Public Transportation Account.”

### **Request for Additional Information**

This financial report is designed to provide a general overview of NCRA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Coast Railroad Authority, 419 Talmage Avenue, Suite M, Ukiah, California 95482.

## **Basic Financial Statements**

**North Coast Railroad Authority**

**Statement of Net Position**

**June 30, 2018**

<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 100,628
Accounts receivable, net	116,206
Deposits and prepaid expenses	10,508
Total current assets	227,342
Capital assets	
Nondepreciable	1,985,481
Depreciable, net	24,712,344
Total capital assets	26,697,825
Total assets	26,925,167
<b>Deferred outflow - pension</b>	
	66,319
<b>Liabilities</b>	
Current liabilities	
Accounts payable	944,140
Accrued expenses	72,436
Judgements and claims	2,155,197
Accrued interest, current portion	452,257
Unearned revenue	296,834
Advances from NWP	1,924,293
Notes payable, current maturities	105,472
Total current liabilities	5,950,629
<b>Accrued interest</b> , net of current portion	1,913,781
<b>Notes payable</b> , net of current portion	2,582,121
<b>Net pension liability</b>	212,650
Total liabilities	10,659,181
<b>Deferred inflow - pension</b>	
	6,637
<b>Net position</b>	
Invested in capital assets	26,697,825
Unrestricted deficit	(10,372,157)
<b>Total net position</b>	\$ 16,325,668

See accompanying Notes to Basic Financial Statements

North Coast Railroad Authority

**Statement of Revenues, Expenses and Changes in Net Position**

**Year ended June 30, 2018**

<b>Operating revenues</b>	
Operator lease	\$ 180,460
Property leases	509,694
Permits and fees	37,720
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Total operating revenue	727,874
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<b>Operating expenses</b>	
Maintenance project costs	120,086
Administrative costs	638,729
Depreciation	1,296,231
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Total operating expenses	2,055,046
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Operating loss	(1,327,172)
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Gain on sale of easement	1,289,000
Interest income	3,227
Other revenue	432
Legal contingency	(1,912,570)
Interest expense	(244,693)
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	(864,604)
<hr/>	
<b>Decrease in net position</b>	(2,191,776)
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<b>Net position at beginning of year</b>	18,517,444
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<b>Net position at end of year</b>	\$ 16,325,668
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See accompanying Notes to Basic Financial Statements

**North Coast Railroad Authority**

**Statement of Cash Flows**

**Year ended June 30, 2018**

	<b>Increase (decrease) in cash and cash equivalents</b>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 757,683
Payments to employees for salaries and benefits	(225,499)
Payments to suppliers of goods and services	(655,310)
<hr/>	
Net cash used in operating activities	(123,126)
<hr/>	
<b>Cash flows from noncapital financing activities</b>	
Other intergovernmental revenue sources	432
Principal payments on advances payable	(553,712)
Interest payments	(77,897)
Principal payments on notes payable	(102,669)
<hr/>	
Net cash used in noncapital financing activities	(733,846)
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<b>Cash flows from capital and related financing activities</b>	
Purchase of land improvements	(710,615)
Proceeds from the sale of easement	1,189,000
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Net cash provided by capital and related financing activities	478,385
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<b>Cash flows from investing activities</b>	
Interest received	3,227
<hr/>	
Net decrease in cash and cash equivalents	(375,360)
<hr/>	
<b>Cash and cash equivalents at beginning of year</b>	<b>475,988</b>
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<b>Cash and cash equivalents at end of year</b>	<b>100,628</b>
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<b>Noncash operating activities:</b>	
Increase in judgements and claims - contingent liability	\$ 1,912,570
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See accompanying Notes to Basic Financial Statements



North Coast Railroad Authority

Statement of Cash Flows (continued)

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Year ended June 30, 2018

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**Reconciliation of operating loss to net cash**

**used in operating activities:**

Operating loss	\$	(1,487,396)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		1,296,231
Change in assets and liabilities:		
Increase in accounts receivable		(107,468)
Increase in deposits and prepaid expenses		(464)
Increase in accounts payable		10,508
Increase in accrued expenses		1,721
Increase in unearned revenue		137,277
Increase in pension balances		26,465

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Net cash used in operating activities	\$	(123,126)
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The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of NCRA as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Related Party Transactions
- Note D. Cash and Cash Equivalents
- Note E. Capital Assets
- Note F. Accounts Payable
- Note G. Accrued Expenses
- Note H. Unearned Revenue
- Note I. Advances from NWP
- Note J. Notes Payable
- Note K. Employee Retirement Plan
- Note L. Risk Management
- Note M. Commitments
- Note N. Going Concern
- Note O. Subsequent Events

**Note A. Defining the 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. 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 NCRA is to provide a unified and revitalized rail infrastructure, meeting the freight and passenger needs of the region, and to provide first class service working in partnership with others to build and sustain the economy of the region.

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

**Note B. Summary of Significant Accounting Policies**

A summary of significant accounting policies is included below:

*Government-wide Financial Statements*

The government-wide basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) display information on NCRA as a whole. NCRA does not have any activities that are considered government-type or fiduciary activities. The statement of net position presents the financial condition of all of the activities of NCRA at year end.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

NCRA uses a single proprietary (enterprise) fund to account for its activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NCRA's basic financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and liabilities associated with the operation of NCRA are included in the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Note B. Summary of Significant Accounting Policies** (continued)*Measurement Focus, Basis of Accounting, and Financial Statement Presentation* (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of NCRA are operator and property lease revenues. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Cash and Cash Equivalents*

NCRA's cash and cash equivalents are pooled with the Sonoma County Treasurer. The Sonoma County Treasurer also acts as a disbursing agent for NCRA. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to NCRA based on its respective average daily balance for that quarter in the County Treasury Investment Pool (the "County Treasury Pool"), an external investment pool.

For purposes of the statement of cash flows, NCRA considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

*Accounts Receivable*

Accounts receivable consists of uncollected property lease income and other fees for services at year end and is stated net of an allowance for doubtful accounts. At June 30, 2018, the allowance for doubtful accounts was \$42,483. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible.

*Capital Assets*

Capital assets include land and land rights, buildings, track structures, heavy equipment, rolling stock, and furniture and equipment. Capital assets are stated at cost or estimated historical cost. Capital assets are defined by NCRA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Depreciation has been provided for using the straight-line method over estimated lives ranging from five to fifteen years for equipment and rolling stock and twenty five to fifty years for buildings and improvements. The costs of normal maintenance and repairs that do not add to the value or materially extend asset lives are reported as project costs as a component of operating expenses.

**Note B. Summary of Significant Accounting Policies** (continued)*Unearned Revenue*

Unearned revenue is comprised of payments received under property and operating lease arrangements in advance of the period earned. Revenue is recognized on such lease arrangements on a pro-rata basis over the lease term.

*Net Position*

Net position represents the difference between assets and liabilities. Net position is segregated into two components: 1) invested in capital assets and 2) unrestricted. Net position invested in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on the use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted net position is available, restricted resources are used before the unrestricted resources are applied.

*Budget and Budgetary Accounting*

NCRA's Board of Directors adopts a budget annually to be effective July 1<sup>st</sup> for the ensuing fiscal year. Transactions not included in the original budget require approval from the Board of Directors. Budgets are adopted on a basis consistent with generally accepted accounting principles.

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements of NCRA include those related to contingent liabilities, the allowance for uncollectible accounts, and the estimated useful lives of capital assets.

*Deferred Outflows and Deferred Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time.

**Note C. Related Party Transactions**

Northwestern Pacific Railroad Company ("NWP Co.") is considered a related party to NCRA due to the nature and extent of the arrangements between the two entities. NCRA and NWP Co. have entered into the following arrangements:

The September 13, 2006 Lease Agreement for Resurrection of Operations and Lease with NWP Co. provides an option for NWP Co. to extend the initial six year agreement for 20 years. NWP Co. exercised that option effective September 13, 2012. The key funding provision of this agreement provides that NWP Co. will make lease payments of \$500,000 per year, assuming that NCRA retains management of its property and other assets. If NWP Co. assumes management of the NCRA property and assets and the revenue it generates, then NWP Co. would make lease payments to NCRA of \$1 million per year. These payment provisions are triggered only when NWP Co. has net income in excess of \$5 million per year. During the fiscal year ended June 30, 2018, these conditions were not met and NCRA did not receive any funds from NWP Co. under this arrangement. NCRA did receive operations loans from NWP during this period but such loans were made under other agreements.

The October 11, 2006 Memorandum of Agreement (MOU) between NCRA and NWP Co. established lease payments at \$20,000 per month (\$240,000 per year) from NWP Co. to NCRA. The purpose of this MOU was to provide funding for NCRA in order to implement the TCRP Project. The payments, defined as advance lease payments, began September 20, 2006 and are to be credited against NWP Co.'s future lease payment obligation. NWP Co. terminated these monthly advance payments in March 2011 when the TCRP Project was completed. Amounts received under this arrangement were originally recorded as deferred revenue, but the October 12, 2011 Memorandum of Agreement – FRA Loan recognized the advance lease payments as an outstanding obligation. This outstanding obligation is discussed in **Note I. Advances From NWP.**

The September 12, 2007 Bridge Financing and Security Agreement with NWP Co. provided the financing necessary to pay TCRP-funded contractors prior to reimbursement by CalTrans for the Lombard to Windsor repair work. All of this work was ultimately reimbursed by CalTrans. This agreement required NCRA to repay NWP Co. for its financing costs for the bridge loans necessary to pay NCRA contractors. Accrued interest under this agreement is \$1,762,094 as of June 30, 2018.

Under the January 2009 Marin Consent Decree Security Agreement, NWP Co. loaned NCRA \$325,000 for payment of the Novato City attorney fees related to the Novato Consent Decree, \$100,000 for sound attenuation demanded by the City, and an amount not to exceed \$1.25 million for installation of Quiet Zones in the city limits of Novato, if the Quiet Zones costs could not be covered by Intermodal Surface Transportation Efficient Act (ISTEA) funds. The cost of the Quiet Zones was covered with ISTEA funds as per the June 2010 MOU with SMART. Under this agreement, NCRA was given five years to repay the remaining \$425,000 and related interest. As of June 30, 2018, the amount advanced to NCRA under this agreement was \$425,000 and is included in advances payable.

**Note C. Related Party Transactions (continued)**

Accrued interest as of June 30, 2018 is \$304,325. The City of Novato Consent Decree, to which this agreement refers, is discussed in **Note M. Commitments**.

Under the agreements adopted by the Board in April and June 2010, Agreements to Complete Reopening Project Lombard to Windsor, NWP Co. agreed to finance \$1.9 million in “punch list” work to be performed by NWP Co. to address final repair issues for the FRA EO 21 inspection, and to address trackway and bridge repair issues raised by SMART. NCRA repaid a large portion of this advance with the funds provided by the federal low interest Railroad Rehabilitation and Improvement Financing (RRIF) loan from the FRA which is discussed in **Note J. Notes Payable**. As of June 30, 2018, the outstanding amount financed by NWP Co. was \$439,293 with accrued interest \$227,731.

In June 2011, NCRA approved changes to the September 13, 2006 lease agreement with NWP Co. to ensure consistency with the Russian River Divisions EIR and the NCRA/SMART Operating and Coordination Agreement, and to make changes to the lease payment provision between NCRA and NWP Co. Under the June 2011 amendments, NCRA was required to promptly process the RRIF loan and to dedicate the proceeds to NWP Co. for its costs associated with the completion of the “punch list” projects. NWP Co. was required to pay NCRA \$25,000 per month on the first day of the month beginning August 1, 2011 following the restart of freight operations, \$15,000 of which could be credited against Advanced Lease Payments already made by NWP Co. and \$10,000 of which would be paid to NCRA. The lease payment provisions of this June 2011 agreement modifications were modified under the October 12, 2011 MOU that follows.

Under the October 12, 2011 Memorandum of Agreement (MOA), NCRA agreed to finalize the RRIF loan and to immediately use \$2.659 million of the proceeds to reimburse NWP Co. for the major portion of its costs related to the “punch list” projects. NCRA also agreed to use its best efforts to obtain the necessary approvals from CalTrans and FHWA to provide NWP Co. with a Deed of Trust on the Ukiah Depot property as collateral for the NWP Co. loans to NCRA. Under this agreement, the proceeds from the sale of the Ukiah Depot property are to be used for the repayment of approximately \$1.8 million in outstanding debt to NWP Co. related primarily to the Bridge Loan interest for the TCRP repairs and the Novato Consent Decree. In addition, the MOA recognized \$1,060,000 in Advance Lease Payments already paid by NWP Co. as an outstanding obligation of the NCRA.

Also under the October 12, 2011 MOA, NWP Co. agreed to pay \$15,038 per month to NCRA for the sole purpose of making quarterly debt service payments on the RRIF loan totaling \$3.18 million.

**Note C. Related Party Transactions (continued)**

And finally, under the October 12, 2011 MOA, NWP Co. agreed, in lieu of the June 2011 amendments regarding lease payments to NCRA, to make a \$15,000 payment per month as a loan to NCRA until the Ukiah depot sells, a permanent rental rate is renegotiated between the parties, or July 1, 2012, whichever date occurs first. NWP Co. discontinued the \$15,000 per month loan payments on July 1, 2012, in accordance with the terms and provisions of the MOA. As of June 30, 2018, the amount advanced to NCRA totaled \$1,060,000 with accrued interest of \$96,883.

NCRA was required to pay a loan risk premium when drawing down the RRIF loan in the amount of \$131,970. This amount was advanced from NWP Co. and is included in accounts payable. As of June 30, 2018 the balance of the payable is \$84,043.

**Note D. Cash and Cash Equivalents**

NCRA follows the practice of pooling cash and cash equivalents with the County Treasury Pool. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the County Treasury Pool. Interest income earned on pooled cash and investments is allocated quarterly to NCRA based on the average daily balance of NCRA during the quarter.

The County Treasury Pool has weighted average maturity of less than two years. The credit rating and other information regarding the Treasury Pool are disclosed in the County of Sonoma's 2017-2018 Comprehensive Annual Financial Report.

NCRA carries its pooled funds with the County Treasurer at cost, which approximates fair value.

*Investment Guidelines*

NCRA's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Directors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.



**Note D. Cash and Cash Equivalents (continued)**

*Investment Guidelines (continued)*

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations
- Joint power agreements

A copy of the County Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Due to the highly liquid nature of NCRA's investment with the County Treasury Pool, NCRA's exposure to interest rate risk is deemed by management to be insignificant.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**Notes to Basic Financial Statements****Year Ended June 30, 2018****Note D. Cash and Cash Equivalents (continued)**

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. NCRA typically maintains a balance of operating cash in the Treasury Pool, an external investment pool, which does not expose NCRA to custodial credit risk.

*Credit Risk*

Generally, 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. The County Treasury Pool is not rated.

**Note E. Capital Assets**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance July 1, 2017	Additions	Retirements and Transfers	Ending Balance June 30, 2018
<b>Capital assets not being depreciated:</b>				
Land and land rights	\$ 1,773,960	\$ -	\$ -	\$ 1,773,960
Work-in-process	211,521	-	-	211,521
<b>Total capital assets not being depreciated</b>	<b>1,985,481</b>	<b>-</b>	<b>-</b>	<b>1,985,481</b>
<b>Capital assets being depreciated:</b>				
Buildings and track structures	36,090,390	-	-	36,090,390
Machinery and equipment	4,420,914	-	-	4,420,914
Land improvements	245,565	710,615	-	956,180
<b>Total assets being depreciated</b>	<b>40,756,869</b>	<b>710,615</b>	<b>-</b>	<b>41,467,484</b>
<b>Less accumulated depreciation</b>	<b>(15,458,909)</b>	<b>(1,296,231)</b>	<b>-</b>	<b>(16,755,140)</b>
<b>Total capital assets being depreciated, net</b>	<b>25,297,960</b>	<b>(585,616)</b>	<b>-</b>	<b>24,712,344</b>
<b>Total capital assets, net</b>	<b>\$27,283,441</b>	<b>\$ (585,616)</b>	<b>\$ -</b>	<b>\$ 26,697,825</b>

**Notes to Basic Financial Statements****Year Ended June 30, 2018****Note F. Accounts Payable**

Accounts payable is comprised of the following as of June 30, 2018:

Trade accounts payable	
American Rail Engineers	\$ 360,649
Christopher Neary	340,275
NWP Company	39,453
Other Vendors	119,720
<hr/>	
Total trade accounts payable	860,097
Payables related to RRIF funded projects	84,043
<hr/>	
	\$ 944,140
<hr/>	

**Note G. Accrued Expenses**

Accrued expenses were comprised of the following as of June 30, 2018:

Legal fees	\$ 40,701
Salaries and benefits payable	29,668
Other accrued expenses	2,067
<hr/>	
	\$ 72,436
<hr/>	

*California Department of Toxic Substance Control*

See **Note M. Commitments** for a discussion of the California Department of Toxic Substance Control settlement.

**Notes to Basic Financial Statements****Year Ended June 30, 2018****Note H. Unearned Revenue**

Unearned revenue represents amounts billed or collected in accordance with contractual terms in advance of the lease term. The unearned revenue represents the balance estimated to be earned as revenue during the next fiscal year.

**Note I. Advances From NWP**

Advances from NWP were comprised of the following as of June 30, 2018:

Bridge Financing and Security Agreement	\$ 1,060,000
Marin Consent Decree Security Agreement	425,000
Agreement to Complete Reopening Project	439,293
	<hr/>
	\$ 1,924,293

The September 12, 2007 Bridge Financing and Security Agreement with NWP Co. provided for discretionary advances of funds. These funds were originally recognized as advance lease payments. The October 12, 2011 MOA includes a provision to recognize the Advance Lease Payments already paid by NWP Co. as an outstanding obligation of the NCRA. Accrued interest for the Advance Lease Payments totals \$449,779 as of June 30, 2018.

Amounts advanced by NWP under the January 2009 Marin Consent Decree Security Agreement total \$425,000 as of June 30, 2018 with accrued interest of \$304,325.

During the year ended June 30, 2018, NCRA paid down \$24,948 of the advances relating to the Agreement to Complete Reopening Project Lombard to Windsor with NWP. This agreement was approved by the NCRA Board of Directors on April 14, 2010 (made effective March 10, 2010) and amended and approved by the NCRA Board of Directors at its August 11, 2010 meeting to complete the “punch list” repair work, for an outstanding balance as of June 30, 2018 of \$439,293. Accrued interest under this agreement is \$227,731 as of June 30, 2018.

In the October 12, 2011 MOA, NWP Co. agreed to make a \$15,000 payment per month as a loan to NCRA until the Ukiah depot sells, a permanent rental rate is renegotiated between the parties, or July 1, 2012, whichever date occurs first. The total principal amount advanced to NCRA was paid back during the year ended June 30, 2018 with accrued interest of \$96,883.

**Notes to Basic Financial Statements****Year Ended June 30, 2018****Note J. Notes Payable**

The following is a schedule of the changes in notes payable for the year ended June 30, 2018:

	Beginning Balance July 1, 2017	Principal Additions	Principal Reductions	Ending Balance June 30, 2018	Current Portion	Noncurrent Portion
Railroad Rehabilitation & Improvement Financing	\$ 2,666,262	\$ -	\$ (102,669)	\$ 2,563,593	\$ 105,472	\$ 2,458,121
TransDyanmics Corporation	124,000	-	-	124,000	-	124,000
<b>Total</b>	<b>\$ 2,790,262</b>	<b>\$ -</b>	<b>\$ (102,669)</b>	<b>\$ 2,687,593</b>	<b>\$ 105,472</b>	<b>\$ 2,582,121</b>

*Railroad Rehabilitation and Improvement Financing Loan*

NCRA obtained financing in November 2011 through the FRA - RRIF loan program, with total available financing under the loan agreement of \$3,180,000. Interest accrues on amounts drawn down under the loan agreement at a rate of 2.96% per annum, with equal quarterly payments of principal and accrued interest due March 15, June 15, September 15, and December 15, over a period of 25 years. NWP is a co-borrower under the loan agreement.

Borrowings are subject to a credit risk premium charge in the amount of 4.15% of drawdowns. There was no premium paid during the year ended June 30, 2018 as no drawdowns were made. Credit risk premium amounts paid are expensed as debt issuance cost in the period incurred.

Amounts disbursed under the loan totaled \$3,180,000. Disbursements were made directly to NWP, which retained approximately \$2,659,000 to repay amounts owed to NWP which were advanced for track rehabilitation and related improvement projects in accordance with the loan agreement. NWP transferred the remaining amounts, approximately \$521,000, to NCRA.

NCRA is subject to certain compliance requirements under the terms of the loan agreement.

## Notes to Basic Financial Statements

Year Ended June 30, 2018

**Note J. Notes Payable** (continued)*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 passenger cars and one 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 \$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 June 30, 2018. The note is secured by the three passenger cars and a power car. Related accrued interest as of June 30, 2018 amounts to \$151,688.

The annual principal and interest requirements on the outstanding notes payable as of June 30, 2018 are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	\$ 105,742	\$ 74,718	\$ 180,460
2020	108,808	71,652	180,460
2021	112,260	68,200	180,460
2022	115,524	64,936	180,460
2023	118,981	61,479	180,460
Thereafter	2,126,278	454,929	2,457,207
	\$ 2,687,593	\$ 795,914	\$ 3,359,507

**Note K. Employee Retirement Plan***Plan Description*

NCRA contributes to the California Public Employees' Retirement System ("CalPERS"), a 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 is a cost sharing multiple-employer plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Substantially all full time employees of NCRA participate in the plan. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement.

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 Q Street, Sacramento, California 95811.

*Funding Policy*

Active plan members are required to contribute 7% of their salary, and NCRA is required to contribute a contractually 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. NCRA's contributions to CalPERS for the year ended June 30, 2018 amounted to \$23,590 which equals the total required contribution for the year.

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

The net pension liability of the plan is measured as of June 30, 2018, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. NCRA's proportion of the net pension liability was based on a projection of NCRA's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. NCRA's proportionate share of the plan's net pension liability was based on NCRA's actual payroll to the pension plan during the year ended June 30, 2018. At June 30, 2018, NCRA's proportion of the plan's net pension liability was .00539%.

For the year ended June 30, 2018, NCRA recognized a pension expense of \$69,360. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions, or method and plan benefits.

## Notes to Basic Financial Statements

Year Ended June 30, 2018

**Note K. Employee Retirement Plan (continued)**

At June 30, 2018, NCRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 279	\$ 3,997
Change in assumption	34,620	2,640
Net differences between projected and actual earnings on plan investments	7,830	-
Contributions made subsequent to the measurement date	23,590	-
<b>Total</b>	<b>\$ 66,319</b>	<b>\$ 6,637</b>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

NCRA's contribution of \$23,590 made subsequent to the measurement date is reported as deferred outflows of resources for the fiscal year ended June 30, 2018, and will be recognized as a reduction of net pension liability in the fiscal year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (reduction of expense) as follows:

Year Ended June 30,	
2019	\$ 8,396
2020	20,211
2021	12,134
2022	(4,649)
<b>Total</b>	<b>\$ 36,092</b>



**Note K. Employee Retirement Plan (continued)**

Actuarial Assumptions - The total pension liabilities in the July 1, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation

Discount Rate - The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the agent multiple-employer defined benefit pension plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website in the GASB 68 section.

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents NCRA's proportionate share of the net pension liability calculated using the discount rate of 7.15% as well as what NCRA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
NCRA's proportionate share of the net pension liability	\$ 331,490	\$ 212,650	\$ 114,225

**Note L. Risk Management**

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.

NCRA maintains commercial coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to NCRA. Settled claims have not exceeded this coverage in any of the past three years.

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 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 NCRA.

**Note M. Commitments***Environmental Remediation Consent Decree*

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 cost totaled \$113,319 and is included in judgements and claims in the accompanying financial statements for the year ended June 30, 2018. NCRA was allocated a total of \$4,100,000 in TCRP funds under Program Supplement #32.5, North Coast Railroad, Environmental Remediation Projects, to perform the various actions committed to under the Consent Decree. Approximately \$2,400,000 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 programmed to NCRA under Program Supplement #32.5. The remaining funding programmed under the Program Supplement #32.5 was not appropriated in the TCRP budget approved for the fiscal year ended June 30, 2018.

*City of Novato Consent Decree*

On November 3, 2008 the Consent Decree and Stipulated Judgment was agreed to in regards to litigation with the City of Novato. The agreement calls for, among other items, the payment of the City of Novato's attorney fees, the completion of 13 quiet zones, landscaping, fencing, purchase of environmentally friendly locomotives, and continuously welded tracks. Management estimates the cost to comply with the Consent Decree to be between \$1,300,000 and \$1,700,000. Failure to comply with the Consent Decree would result in the prevention of NCRA from operating the rail line in the vicinity of the City of Novato.

**Note M. Commitments (continued)**

*City of Novato Consent Decree*

NCRA plans on making use of approximately \$1,500,000 in ISTEAs funds to implement the Quiet Zones at seven Novato crossings under a Memorandum of Understanding with SMART. NCRA has asked the City of Novato to consider slow trains (25 MPH) in lieu of the requirements for continuously welded rail ("CWR") until SMART installs CWR throughout the entire corridor within the next two years.

On June 20, 2011 the NCRA Board of Directors approved amendments to the November 2008 Novato consent Decree which clarifies that SMART is the lead agency for Quiet Zone work, and prevents duplicative spending to install welded rail. Additionally, the required completion date for the installation of Quiet Zones and welded rail was extended to December 31, 2013. The Novato City Council approved these changes on July 12, 2011.

Since entry of the Consent Decree, NCRA and NWP Co. have paid \$325,000 for Novato's cost of the lawsuit and \$100,000 to Novato for its Sound Attenuation Fund. In addition, NCRA has provided \$2,806,381 of its ISTEAs grant funds to improve 7 public rail crossings and 1 private crossing in the city of Novato. NWP Co. has purchased a low-emission engine for \$1,217,781 and SMART's contractor has installed "continuously welded rail" from Novato's northerly city limit to south of Ignacio Blvd. All of the Quiet Zone work in the City of Novato has been completed in August 2017.

**Note N. Going Concern**

The State legislature has approved, and Governor Brown signed into law SB1029 (McGuire) as amended August 24, 2018. This legislation requires the state Transportation Agency and the state Resources Agency to conduct an assessment to determine the most appropriate way to dissolve NCRA and to dispense with its assets and liabilities. The bill requires these state cabinet level agencies to complete their findings and report back to the legislature no later than July 1, 2020. NCRA is required to cooperate with the assessment and to provide access to all NCRA records requested by the state agencies conducting the assessment.

The NCRA will cooperate fully with Senator McGuire's office and the relevant state agencies and trail planning entities to accomplish the assessment mandated by SB1029 (McGuire).

The basic financial statements do not include any adjustment relating to the amounts and classification of assets that will be transferred to other state agencies or the related liabilities.

**Note O. Subsequent Events**

On December 21, 2018, the Marin Superior Court awarded \$1,912,570 to the petitioners for legal fees against NCRA regarding the California against Toxic Substances case. NCRA filed an appeal within the required time frame. In April 2019 the case was settled and an amount of \$1,912,570 was recorded as a liability as of June 30, 2018.

## **Supplementary Information**

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>Department of Transportation</b>			
Federal Railroad Administration			
Railroad Rehabilitation and Improvement Financing Program			
Outstanding Loan Balance	20.316		\$ 2,563,593
<i>Total Department of Transportation</i>			2,563,593
Total expenditures of federal awards			\$ 2,563,593

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2018

**Note A. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal loan balance of the North Coast Railroad Authority (NCRA) under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of NCRA, it is not intended to and does not present the financial position, changes in net position, or cash flows of NCRA.

**Note B. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Office of Management Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustment or credits made in the normal course of business to amounts reported as expenditures in prior years. NCRA did not pass-through and funds to sub recipients during the year.

**Note C. Federal Railroad Rehabilitation and Improvement Financing Program**

The Federal Railroad Rehabilitation and Improvement Financing Program is administered directly by NCRA and balances and transactions relating to this program are included in NCRA's basic financial statements. The loan balance as of June 30, 2018 is as listed on the schedule of expenditures of federal awards.

**Note D. Indirect Cost Rate**

NCRA did not elect to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note E. Federal Expenditures Incurred in Prior Years**

NCRA's costs under the Federal Railroad Rehabilitation and Improvement Financing Program were incurred in the following fiscal years:

Fiscal Year Ended June 30,	
2010	\$ 627,662
2011	2,093,998
2012	458,340
<b>Total</b>	<b>\$ 3,180,000</b>

**Schedule of Net Pension Liability and Contributions – Last 10 Fiscal Years\***

**For the Fiscal Year Ended June 30, 2018**

<b>June 30,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NCRA's Proportionate Share of Net Pension Liability</b>				
NCRA's proportion of the net pension liability	0.005394 %	0.005577 %	0.005577 %	0.002600 %
NCRA's proportionate share of the net pension liability	\$ 212,650	\$ 193,742	\$ 158,203	\$ 179,351
NCRA's covered employee payroll	177,883	170,324	185,613	202,407
NCRA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.54 %	113.75 %	85.23 %	88.61 %
Plan fiduciary net position as a percentage of the total pension	83.65 %	87.91 %	117.33 %	112.86 %
<b>NCRA's Pension Contributions</b>				
Actuarially determined contribution	\$ 37,283	\$ 35,276	\$ 18,311	\$ 22,761
Contributions in relation to the actuarially determined contribution	23,590	23,549	23,420	38,597
Contributions deficiency (excess)	\$ 13,693	\$ 11,727	\$ (5,109)	\$ (15,836)
NCRA's covered-employee payroll	177,883	170,324	185,613	202,407
Contributions as a percentage of covered-employee payroll	13.26 %	13.83 %	12.62 %	19.07 %

\*Amounts presented above were determined as of December 31. Additional years will be presented as they become available.





**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Coast Railroad Authority ("NCRA") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise NCRA's basic financial statements, and have issued our report thereon dated April 24, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NCRA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCRA's internal control. Accordingly, we do not express an opinion on the effectiveness of NCRA's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance with  
*Government Auditing Standards* (continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NCRA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of NCRA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCRA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Perenti & Brink LLP*

Santa Rosa, California  
April 24, 2019



**Report on Compliance for Each Major Federal Program  
And Report on Internal Control Over Compliance  
Required by the Uniform Guidance**

Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program**

We have audited the North Coast Railroad Authority's ("NCRA") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NCRA's major federal programs for the year ended June 30, 2018. NCRA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for NCRA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NCRA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of NCRA's compliance.

***Basis for Qualified Opinion on 20.316 Federal Railroad Rehabilitation and Improvement Financing Program***

As described in the accompanying schedule of findings and questioned costs, NCRA did not comply with requirements regarding 20.316 Federal Railroad Rehabilitation and Improvement Financing Program as described in finding numbers 2018-1 and 2018-2. Compliance with such requirements is necessary, in our opinion, for NCRA to comply with the requirements applicable to that program.

**Report on Compliance for Each Major Federal Program  
And Report on Internal Control Over Compliance  
Required by the Uniform Guidance (continued)**

***Qualified Opinion on 20.316 Federal Railroad Rehabilitation and Improvement Financing Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, NCRA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 20.316 Federal Railroad Rehabilitation and Improvement Financing Program for the year ended June 30, 2018.

***Other Matters***

NCRA's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. NCRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of NCRA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NCRA's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NCRA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-1 that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

NCRA's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. NCRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Presente & Brink LLP*

Santa Rosa, California  
April 24, 2019

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

**I. Summary of Auditor's Results*****Financial Statements***

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No  
Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major federal programs:

Material weaknesses identified? No  
Significant deficiencies identified? Yes

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

***Identification of major federal programs:***

CFDA Number	Name of Federal Program or Cluster
-------------	------------------------------------

20.316	Federal Railroad Rehabilitation and Improvement Financing Program
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Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee? No

**II. Financial Statement Findings**

*No matters are reportable*

**III. Findings and Questioned Costs for Federal Awards**

**U.S. Department of Transportation**

**Program Name: Railroad Rehabilitation and Improvement Financing Program  
CFDA# 20.316**

**Finding 2018-1**

**Significant Deficiency**

**Material noncompliance**

Lack of reporting under Financial and Project Reports requirement 4.6

Criteria: Per the agreement with Federal Railroad Administration for the Railroad Rehabilitation and Improvement Financing Loan, NCRA must provide audited financial statements within 120 days after fiscal year end.

Condition: NCRA did not provide the audited financial statements within the required timeframe.

Questioned costs: Not applicable

Context: As of 120 days after year end, NCRA was unable to provide audited financial statements to the Administer.

Effect: No definitive effect of missing this deadline was noted.

Cause: NCRA lacked the financial resources needed to complete the audit on a timely basis.

Recommendation: NCRA should develop a schedule to complete the audit on a timely basis and prioritize the use of its financial resources accordingly.

View of responsible officials and planned corrective actions: NCRA will develop a time schedule to ensure that the audits are completed within 120 days after the fiscal year end. NCRA will set aside certain annual encroachment lease payments to ensure that financial resources will be available to pay for the audit services.

**U.S. Department of Transportation**

**Program Name: Railroad Rehabilitation and Improvement Financing Program**

**CFDA# 20.316**

**Finding 2018-2**

**Material noncompliance**

Failure to meet Financial Test requirement 4.7

Criteria: Per the agreement with Federal Railroad Administration for the Railroad Rehabilitation and Improvement Financing Loan, NCRA must maintain a Fixed Charge Coverage Ratio of not less than 1.05 at the end of each fiscal year.

Condition: NCRA did not maintain a fixed charge coverage ratio of greater than 1.05.

Questioned costs: Not applicable

Context: NCRA's fixed coverage ratio was less than 1.05 at the end of the fiscal year.

Effect: No definitive effect of not maintaining the ratio was noted.

Cause: NCRA had a net loss from operations at the end of the fiscal year, resulting in a fixed coverage ratio of less than 1.05.

Recommendation: We recommend that NCRA work with the Administrator to obtain an amendment to the agreement with achievable financial ratios.

View of responsible officials and planned corrective actions: NCRA acknowledges that the required fixed coverage ratio of not less than 1.05 is not currently attainable and will contract the FRA to determine whether an amendment to the agreement can be made.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2018

Prior Audit Findings  
Federal Awards Findings

Finding: 2017-1

Lack of reporting under Financial and Project Reports requirement 4.6

Status: This finding has not been resolved and is reported again as finding 2018-1.

Finding: 2017-2

Failure to meet Financial Test requirement 4.7

Status: This finding has not been resolved and is reported again as finding 2018-2.





North Coast Railroad Authority  
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## North Coast Railroad Authority

### Corrective Action Plan

Year Ended June 30, 2018

#### Corrective Action Plan:

**Finding Number: 2018-1 Lack of reporting under Financial and Project Reports requirement 4.6 (Significant Deficiency and Material Noncompliance)**

**Planned Corrective Action:** North Coast Railroad Authority has calendared a reminder to ensure that the audit is completed on a timely basis to ensure audited financial statements are submitted within 120 days after fiscal year end to the Federal Railroad Administration for the Railroad Rehabilitation and Improvement Financing Loan.

#### Person responsible for Corrective Action Plan:

North Coast Railroad Authority and Mitch Stogner, Executive Director.

#### Anticipated Date of Completion:

During fiscal year 2019.

**Finding: 2018-2 Failure to meet Financial Test requirement 4.7 (Material noncompliance):**

**Planned Corrective Action:** North Coast Railroad Authority has set a plan to work with the Administrator to obtain an amendment to the Railroad Rehabilitation and Improvement Financing loan agreement with achievable financial ratios so that the financial test requirements set by the Federal Railroad Administration can be met.

#### Person responsible for Corrective Action Plan:

North Coast Railroad Authority and Mitch Stogner, Executive Director.

#### Anticipated Date of Completion:

During fiscal year 2019.