

To: Board of Directors, Northeastern Region of the NMRA  
From: Peter McKenney, Treasurer  
Date: July 29, 2015

### **Treasurer's Annual Report for FYE June 2015**

Financially, the NER benefitted from a reasonably good fiscal year. Revenue and expenditures were quite close to expectations. Although the net assets shrank by 7.71% in the fiscal year ended June 30, 2015, that was an expected result of paying a substantial, deferred distribution to the Divisions in September, 2014, under the recently restated distribution policy. The cash balance in the checking account on June 30, 2015, was \$4,759, better than forecasted by \$308. This cash balance is quite adequate for handling historic level of NER operations during the new fiscal year.

During FY 2015, the Region received two installments of NMRA dues rebate remittances totaling \$2,980. Per the Board's restated distribution policy, these remittances were quickly allocated and distributed to the divisions. The same distribution policy calls for sharing half of net appreciation in liquid assets (but NOT permanently restricted fund assets) with the divisions. A small amount will be distributed under this formula this year: \$420. This amount will be paid as directed by the President, but no later than the day of the Annual Meeting.

Attached to this report are the following supporting documents:

- NER Balance Sheet as of June 30, 2015 and 2014
- NER Profit and Loss Statement for FYE June 30, 2015, with a Summary of Fund Balance Changes
- NER Budget Analysis for FYE June 30, 2015 and a (static) draft budget for FYE 2016
- Calculation of Amount to Distribute to Divisions for Appreciation of Certain Assets during FYE 2015

Other comments:

**Budget** The NER Executive Handbook lists Treasurer Duties in Section 10, page 1. These include preparing "a budget annually for submission to the Board of Directors." I submitted such a budget in my Treasurer's Report dated August 24, 2014, but the Board never discussed or officially adopted that budget. Nevertheless, I have compared actual FYE 2015 income and expenditures to the "presented budget" amounts and they compare fairly well. I have submitted a new budget for FYE 2016, per the guidelines of the Handbook, and **urge the Officers and Directors to ponder the FYE 2016 budget and possibly officially approve it or an adjusted budget**. This will guide me and others during the year on deciding what invoices are appropriate for payment.

My "presented budget" for this new fiscal year may need to be revised if the NER chooses to undertake a new activity or expand any existing activity. Hopefully, the NER strategic planning process will generate some new initiatives that may have an impact on finances. As soon as anyone has information of any such changes, please pass that information along. Note that the

budget reflects no potential revenue from an NER convention because there will be none during this fiscal year. I am also unsure of future costs for internet and conference call services. Scooter, I believe, pre-paid for three years of service.

**Fund Accounting** The Profit and Loss Statement contains details on all of the funds that the NER maintains. I have estimated a cost of supplying the 83 NER life members (as of November, 2014) hard copies of The Coupler and allocated this cost directly to the NER Life Members Equity Fund. With partial credit for advertising revenue, the cost per NER life member last fiscal year was \$5.32. As a result of this charge, net of the investment return on the fund, the fund balance declined \$42 to \$19,472. I remain convinced that the NER Life Member Equity Fund is significantly overfunded. Since this fact currently is NOT creating any financial problem, I can defer further attention to this issue until a more appropriate time.

Similarly, I charged \$34 directly to the Spate Award Fund for reimbursing Larry Cannon for buying a plaque for the last recipient of the Award. In the past, I believe that neither of these funds were regularly charged for outlays relating to them. Consequently, they have grown larger than would be reasonable or necessary.

Since cash from the checking account (Unrestricted Net Assets) was used to pay for the NER life members' newsletters and the plaque, I contemplated removing funds from the RBC investments to restore the cash in the checking account. Since I believe I have sufficient cash in the checking account for the foreseeable future, I chose to increase the balance of the General Operating Invested Fund instead. That fund is intended to support general operations similar to the checking account. This keeps more assets in investment mode.

**Audit** Bill Barry and Gerry Covino, serving as the NER Audit Committee, received the fiscal year 2014 NER financial records for purposes of reviewing them. Although I have not seen a written report of their findings, I have had conversation with Bill and I am not aware of any issues that I need to address in my role as Treasurer. The lack of a Board of Directors meeting since their work was completed has prevented the Directors from considering their report. I will forward the fiscal year 2015 records to the NER Audit Committee shortly for review, also. The NER Bylaws specify that the Audit Committee "shall submit a report at the Annual Meeting..."

**RBC Wealth Management Proposal** NER's invested funds are managed by RBC's Larry Fann out of its Phoenix, AZ, office. Larry has managed this account for several years and he also manages funds for other NMRA entities. I spoke with Frank Koch, MMR, who knows of Larry and regards him well. For these services, RBC charges an annual rate of 1.8% of asset value. Currently, the funds are invested in 8 mutual funds, plus a very modest money market account.

Larry proposed in February that the NER liquidate the 8 mutual funds and shift the assets to one of his 8 "customized managed portfolios." The minimum amount for investing in such a portfolio is \$50,000, thus the NER had not been qualified to use any of these portfolios until recently. Larry recommended that the NER invest in his "All Capitalization US Equity Growth" portfolio that contains 38 individual stock holdings spread over 13 industry sectors. The

management fee would be the same 1.8%. I told him that I would ask the NER president to appoint a group to review his proposal and make a recommendation to the Board. Such a study group was not appointed and the issue has languished for over five months. A disadvantage of Larry Fann's proposal is lack of diversification: no value style, international, alternative investments or fixed income investments. In the interim, I asked Larry to advise us on the appropriateness of the mix of mutual funds currently in the portfolio. My own Morning Star research in March noted that two of the funds with 14% of the market value of the NER portfolio were rated only "2."

Investment results for FYE 2015 were below expectations due primarily to the market performing below average. Having a 1.8% management fee also is a handicap, although there are few options for a tiny portfolio of only \$50,000. If investment management talent can be recruited from volunteers, then the NER could save substantial part of its investment total return each year.

**I recommend that an ad hoc committee be formed to serve as an internal investment advisory body which could bring its own findings and recommendations to the Board for consideration.**

**Cash Controls** President Doehring needs to obtain authority to sign checks on the Androscoggin Bank checking account, replacing Scooter. **I recommend that the Board adopt the following resolution: "President Doehring and Treasurer McKenney are authorized to execute any bank document or agreement, and take any other action required to replace George Youst with John Doehring as a representative of the NER to Androscoggin Bank and become an authorized signer on its checking account."**

Currently, NER policy is to have two signatures on checks of \$500 or more. Ex-NER Treasurer Larry Cannon also has signature authority and he can serve as a co-signer with me on checks of \$500 or more which will happen at least four times a year when the Rapid Press invoice for The Coupler is paid. Last September, I needed a second signature on six checks paid to divisions that were over \$500, too, but that is not likely to reoccur in the future because distributions to divisions will be paid timely throughout each year. Given that the checking account balance will likely be between \$2,500 and \$5,000 for the foreseeable future, is the current \$500 rule necessary and practical? The Bylaws already require the Treasurer to pay only bills that are supported by proper documentation and do not exceed any approved budget.

**I recommend that the Board consider the following resolution: The NER President and Treasurer, and any other Board approved official of the NER, are authorized to sign checks without a co-signature on checks up to and including \$1,500. Checks for more than \$1,500 require two authorized signatures. For administrative ease, former NER Treasurer Larry Cannon will continue to be eligible to be an authorized signer. The President and Treasurer are authorized to execute any bank documents and take any other necessary action to make this resolution effective.**

**The Coupler** The current \$6 subscription fee for The Coupler remains adequate. One issue this fiscal year had to be sent to all NER members due to the NER election, temporarily

raising costs. This brought the cost over \$6 for all paid subscribers, but a fairer analysis shows that the annual cost of each issue is approximately \$5.23.

**Spade Award** I am not aware of any activity underway to select another recipient for this award. Will the NER use this fund in the future? **I recommend that one of the Officers or Directors be appointed to solicit candidates for the award every year.**

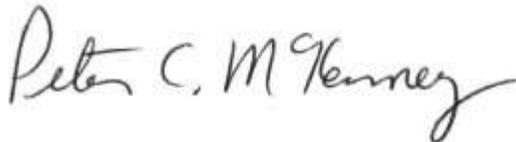
**Form 990-N** I filed, and the IRS accepted on July 29, 2015, a completed Form 990-N for the taxable year ended June 30, 2015. The NER is current on all tax compliance matters.

If anyone has any questions, please send them my way.

[mckenp@maine.rr.com](mailto:mckenp@maine.rr.com)

207-776-2033

36 Bruce Hill Road, Cumberland, ME 04021-3452

A handwritten signature in cursive script that reads "Peter C. McKenney". The signature is written in black ink and is positioned below the contact information.

## Northeastern Region of the NMRA

### Balance Sheet

As of June 30, 2015

	Jun 30, 15	Jun 30, 14	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
Androscoggin Bank C/A	4,759	10,595	-5,836	-55.08%
RI Div reimb receivable	0	9	-9	-100.0%
<b>Total Current Assets</b>	<b>4,759</b>	<b>10,603</b>	<b>-5,845</b>	<b>-55.12%</b>
<b>Marketable Securities</b>				
RBC Fixed Income Investments	7,057	7,433	-376	-5.06%
RBC International Equities	18,630	18,053	577	3.2%
RBC Money Market Fund	144	55	88	159.32%
RBC US Equities	26,436	25,677	760	2.96%
<b>Total Marketable Securities</b>	<b>52,267</b>	<b>51,218</b>	<b>1,049</b>	<b>2.05%</b>
Security Deposit with Rapid Press	400	400	0	0.0%
<b>TOTAL ASSETS</b>	<b>57,426</b>	<b>62,221</b>	<b>-4,795</b>	<b>-7.71%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Equity</b>				
General Operating Invested Fund	31,407	30,311	1,096	3.62%
Life Member Equity Fund (B Dir)	19,472	19,513	-42	-0.21%
<b>Perm. Restricted Net Assets</b>				
Spate Award Fund (Restricted)	1,389	1,394	-5	-0.37%
<b>Total Perm. Restricted Net Assets</b>	<b>1,389</b>	<b>1,394</b>	<b>-5</b>	<b>-0.37%</b>
Unrestricted Net Assets	5,159	11,003	-5,845	-53.12%
<b>Total Equity</b>	<b>57,426</b>	<b>62,221</b>	<b>-4,795</b>	<b>-7.71%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>57,426</b>	<b>62,221</b>	<b>-4,795</b>	<b>-7.71%</b>

NOTE: This report does not reflect assets in the NER Convention Fund managed by the NER Convention Committee Treasurer. Target cash balance in the Convention Fund is \$4,000 per the NER Bylaws, plus the Convention Committee has acquired equipment for use at NER conventions.

**Northeastern Region of the NMRA  
Profit and Loss Statement for Fiscal Year Ended June 2015**

	Fund Accounting				Combined P and L for FYE June 2015
	General Operating Invested Fund	Life Member Equity Fund	Spate Award Fund	Un- restricted Net Assets	
<b>Income</b>					
Subscriptions for newsletter				5,441	5,441
NMRA dues rebate remittances				2,980	2,980
Coupler advertising revenue		20		205	225
Fidelity Investments settlement on stock transfer fee				82	82
Transfer from NER Convention Fund				905	905
<b>Total Income</b>	-	20	-	9,613	9,633
<b>Expenses</b>					
Achievement Program expenditures				344	344
The Coupler printing and postage expenses		461		5,930	6,392
Credit card fees NMRA charges for The Coupler				48	48
Office expenses				64	64
<b>Total Expenses</b>	-	461	-	6,386	6,848
<b>Net Ordinary Income</b>	-	(442)	-	3,226	2,785
<b>Investment Income and Expenses</b>					
Capital gain dividends	2,181	1,404	100		3,685
Dividend income	372	240	17		629
Gain/(loss) on sale of investments	185	119	8		312
Interest income on checking account				5	5
Other changes in investment value	(1,577)	(1,015)	(73)		(2,665)
<b>Total Investment Income</b>	1,161	747	58	5	1,966
Investment Management Expense	540	347	25		912
<b>Net Investment Income</b>	621	400	29	5	1,055
<b>Net Income</b>	621	(42)	29	3,231	3,839
<b>SUMMARY OF FUND BALANCE CHANGES</b>					
Balances June 30, 2014	30,311	19,513	1,394	11,008	62,221
Percentage of Invested Funds	39.2%	38.1%	2.7%		
Plus net income in FY 2015	621	(42)	29	3,231	3,839
Less distributions paid to NER's Divisions				(8,601)	(8,601)
Less costs for plaque for Spate Award			(34)		(34)
<b>Interfund Transfers Due to Disbursements Made from Unrestricted Net Assets Rather than Invested Funds</b>					-
Spate costs paid on behalf of Spate Award Fund	34			(34)	-
Life member issue costs paid on behalf of Life Member Equity Fund	442			(442)	-
Variations			(0)	0	-
<b>Balances June 30, 2015</b>	<b>31,407</b>	<b>19,472</b>	<b>1,389</b>	<b>5,159</b>	<b>57,426</b>

**Northeastern Region of the NMRA  
Budget Analysis**  
for fiscal years 2015 and 2016

	Proposed Budget for FYE June 2015 ( <i>NOT officially adopted by NER BOD</i> )	Actual FYE 2015 Amounts	Variances	Draft Budget for FYE 2016 (Lacking input from officers and directors)
<b>REVENUE</b>				
The Coupler ad revenue	150	225	75	200
NMRA dues rebates	3,000	2,980	(20)	2,900
Subscription revenue	6,000	5,441	(559)	5,500
Convention Fund transfer	1,000	905	(95)	-
Other income		82	82	
Interest Income		5	5	5
Investment net income	3,000	1,961	(1,039)	2,500
Total revenue	13,150	11,599	(1,551)	11,105
<b>EXPENDITURES</b>				
AP expenditures	800	344	(456)	500
Spate Award expenditure		34	34	50
Corporate registration fee	25		(25)	50
Communications expense (LogMeIn)	150		(150)	
The Coupler printing and postage costs	6,500	6,392	(108)	5,200
Credit card debits by NMRA	30	48	18	50
Internet fees	50		(50)	
Office expenses	200	64	(136)	100
Distributions to divisions of NMRA rebates	3,000	2,980	(20)	2,900
Distributions to divisions at Annual Meeting	5,621	5,621	-	420
Investment management fees	1,000	912	(88)	1,000
Total expenditures	17,376	16,395	(981)	10,270
Net changes in fund balances	(4,226)	(4,796)	(570)	835

**Northeastern Region of the NMRA  
Calculation of Amount to Distribute to Divisions for Appreciation of Certain  
Assets During FYE June 2015**

June 30, 2015 Net Assets	57,426.24	
Less value of restricted funds (Spate Award Fund)	(1,388.60)	
Subtotal	56,037.64	
Less NER financial reserve benchmark for FYE June 2015	(55,198.00)	55,198.00
Excess above benchmark	839.64	
Less half retained by NER	(419.82)	419.82
<b>Half to be distributed to divisions on or before 2015 Annual Meeting</b>	<b>419.82</b>	
NER financial reserve benchmark for next distribution for FYE 6/16		<b>55,617.82</b>