

**POTOMAC AND RAPPAHANNOCK  
TRANSPORTATION COMMISSION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007**



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***FINANCIAL SECTION***



## INDEPENDENT AUDITORS' REPORT

To the Honorable Commission Board Members  
Potomac and Rappahannock Transportation Commission  
Woodbridge, Virginia

We have audited the accompanying financial statements of the Potomac and Rappahannock Transportation Commission (the "Commission") as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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* and should be considered in assessing the results of our audits.

The management's discussion and analysis (pages 3 to 8) and the required supplementary information (page 30) are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenses of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PBGH, LLP

Harrisonburg, Virginia  
November 16, 2007



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Potomac and Rappahannock Transportation Commission ("PRTC") offers the users of PRTC's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of PRTC. It should be read in conjunction with the financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

As of June 30, 2007, total assets of PRTC exceeded total liabilities by \$73,727,964. Of this amount, \$12,200,088 may be used to meet PRTC's on-going obligations.

The net assets of PRTC increased by \$930,289 during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to PRTC's basic financial statements. The basic financial statements are comprised of four components: statements of net assets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net assets* present information on all of PRTC's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of PRTC is improving or declining.

The *statements of revenues, expenses and changes in net assets* present information on revenues, expenses, and how PRTC's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of PRTC's current year operation on its financial position.

The *statements of cash flows* summarize all of PRTC's cash flows into four categories: cash flows from operating activities; cash flows from capital and related financing activities; cash flows from noncapital financing activities; and cash flows from investing activities. The statements of cash flows, along with related notes and information in other financial statements, can be used to assess the following:

- PRTC's ability to generate future cash flows,
- PRTC's ability to pay its debt as it matures,
- Explanations of differences between PRTC's operating cash flows and operating loss, and
- The effect on PRTC's financial position of cash and non-cash transactions from investing, capital and financing activities.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the statements of net assets; statements of revenues, expenses and changes in net assets; and statements of cash flows. The notes to the financial statements can be found immediately following the financial statements.

The financial statements briefly discussed above provide information on all functions of PRTC as a business-type activity. The activities of PRTC are supported by the 2% motor fuel tax within the member jurisdictions, fare collections from passengers, and federal, state, and local assistance.

## FINANCIAL ANALYSIS

### Statements of Net Assets

Total assets of PRTC exceeded total liabilities by \$73,727,964 as of June 30, 2007. A significant portion of this (44%) is invested in net capital assets less any related debt that is still outstanding. PRTC uses these capital assets to provide express bus service from the Prince William County and Manassas areas to various points in the metropolitan Washington, D.C. area, and local bus service within Prince William County, and the cities of Manassas and Manassas Park. These capital assets are not available for future spending.

A condensed summary of PRTC's net assets at June 30, 2007 and 2006 is shown below.

|                     | June 30,          |                   |
|---------------------|-------------------|-------------------|
|                     | 2007              | 2006              |
| ASSETS:             |                   |                   |
| Current assets      | \$51,724,881      | \$48,022,465      |
| Noncurrent assets   | 2,515,092         | 3,078,328         |
| Capital assets, net | <u>32,619,933</u> | <u>33,532,153</u> |
| Total assets        | <u>86,859,906</u> | <u>84,632,946</u> |

LIABILITIES:

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Current liabilities    | \$10,856,282      | \$ 8,858,522      |
| Noncurrent liabilities | <u>2,275,660</u>  | <u>2,976,749</u>  |
| Total liabilities      | <u>13,131,942</u> | <u>11,835,271</u> |

NET ASSETS:

|   |                     |                     |
|---|---------------------|---------------------|
| Invested in capital assets, net of related debt | 32,090,931          | 32,891,180          |
| Restricted                                      | 29,436,945          | 30,958,081          |
| Unrestricted                                    | <u>12,200,088</u>   | <u>8,948,414</u>    |
| Total net assets                                | <u>\$73,727,964</u> | <u>\$72,797,675</u> |

Approximately 40% of PRTC's net assets represent resources that are restricted. Of the restricted net assets, at June 30, 2007, \$27,402,144 is restricted cash for member jurisdictions, and the remaining \$2,034,801 is restricted for debt service.

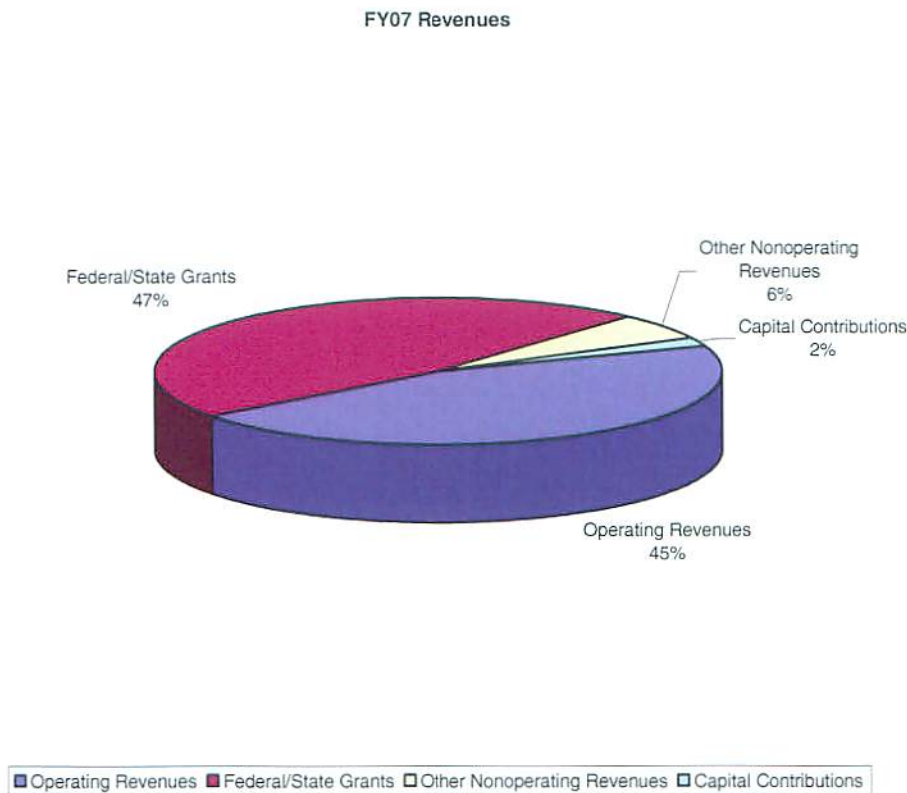
Statements of Revenues, Expenses and Changes in Net Assets

During fiscal year 2007, PRTC's activities resulted in an increase in net assets of \$930,289. The key elements of the changes in net assets are shown in the following table.

|                             | Years Ended<br>June 30, |                     | Percent<br>Increase<br>(Decrease) |
|-----------------------------|-------------------------|---------------------|-----------------------------------|
|                             | 2007                    | 2006                |                                   |
| <b>REVENUES:</b>            |                         |                     |                                   |
| Operating revenues          | \$27,442,765            | \$25,554,810        | 7%                                |
| Federal and state grants    | 28,572,039              | 35,808,209          | (20)%                             |
| Other nonoperating revenues | 3,575,311               | 3,609,030           | (1)%                              |
| Capital contributions       | <u>1,135,294</u>        | <u>-</u>            | -                                 |
| Total revenues              | <u>60,725,409</u>       | <u>64,972,049</u>   | (7)%                              |
| <b>EXPENSES:</b>            |                         |                     |                                   |
| Operating expenses          | 37,988,141              | 35,274,679          | 8%                                |
| Pass-through grants         | 21,607,056              | 22,948,962          | (6)%                              |
| Other nonoperating expenses | <u>199,923</u>          | <u>203,398</u>      | (2)%                              |
| Total expenses              | <u>59,795,120</u>       | <u>58,427,039</u>   | 2%                                |
| Change in net assets        | 930,289                 | 6,545,010           | (86%)                             |
| Net Assets, beginning       | <u>72,797,675</u>       | <u>66,252,665</u>   | 10%                               |
| Net Assets, ending          | <u>\$73,727,964</u>     | <u>\$72,797,675</u> | 1%                                |

The increase in operating revenues of \$1,887,955 from fiscal year 2006 is due primarily to: an increase of 6% in the 2% motor fuel tax revenue as a result of higher fuel prices, an increase of 9% in farebox revenues as a result of more passenger trips and a fare increase on OmniRide bus service in April 2007, and increased advertising revenue. The decrease in federal and state grants of \$7,236,170 is principally the result of no bus purchases during fiscal year 2007. Capital contributions of \$1,135,294 relate to the electronic fareboxes that PRTC installed on its bus fleet in mid-June 2007. Of the 115 fareboxes that PRTC received, 87 are funded by grants held by the Northern Virginia Transportation Commission (NVTC), which coordinated the “farebox implementation” project for the region.

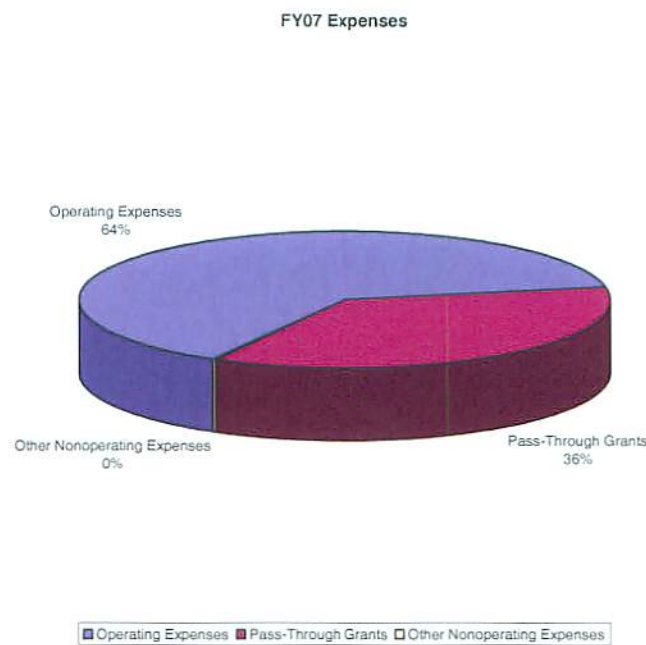
The following chart shows revenues by source for the fiscal year ended June 30, 2007.



Total operating expenses increased by \$2,713,462, principally due to salaries and related benefits, contractual services, and depreciation and amortization. In addition to leave accruals and cost of living and merit increases which typically happen every fiscal year, salaries increased due to the reclassification of some positions during the market parity study that was completed in the fall 2006. Employee benefits increased due to higher health insurance premiums, increased amounts for FICA and the Virginia Retirement System contributions due to higher salaries. Contractual services increased mainly as a result of PRTC’s bus operating / maintenance service contract with First Transit, in which the contract cost increased due to inflation and increased service hours. The hourly rate

charged by First Transit changes annually at the beginning of the fiscal year based on the consumer price index (CPI). In addition, the hourly rate was further altered in March 2007 after management completed a comparative analysis of similar contract costs in the region and concluded that an adjustment was necessary for “parity” reasons. Furthermore, new bus services were introduced in fiscal year 2007. These new services include an OmniRide route for Rosslyn/Ballston and increased frequency on the eastern OmniLink routes. Depreciation and amortization increased principally due to the first full year impact of the 17 buses that were delivered during fiscal year 2006. Pass-through grants decreased by \$1,341,906 primarily as the result of less federal funds received for various Virginia Railway Express projects.

The following chart shows expenses for the fiscal year ended June 30, 2007.



## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### Capital Assets

PRTC’s investment in capital assets as of June 30, 2007, amounts to \$32,619,933 (net of accumulated depreciation). This investment in capital assets includes buses and related equipment, other vehicles, construction in process, furniture and equipment, bus shelters, building, building improvements, and site improvements.

Major capital asset additions during the current fiscal year included the following:

- Installation of electronic fareboxes on the entire OmniRide and OmniLink bus fleet valued at \$1,537,175

- Installation of new bus washer valued at \$153,785

The following table summarizes capital assets net of depreciation.

|                             | June 30,            |                     |
|-----------------------------|---------------------|---------------------|
|                             | 2007                | 2006                |
| Buses and related equipment | \$25,575,167        | \$26,985,513        |
| Other vehicles              | 6,680               | 15,050              |
| Construction in process     | 691,849             | 314,371             |
| Furniture and equipment     | 311,512             | 146,448             |
| Bus shelters                | 57,765              | 70,338              |
| Building                    | 5,504,187           | 5,772,598           |
| Building improvements       | 355,522             | 227,835             |
| Site improvements           | 117,251             | -                   |
| Total                       | <u>\$32,619,933</u> | <u>\$33,532,153</u> |

Additional information on PRTC's capital assets is shown in Note 7.

#### Long-Term Debt

At the end of the fiscal year, PRTC had total revenue bonds payable outstanding of \$3,135,000. These bonds are secured by Prince William County's portion of the 2% motor fuel tax revenues, basic rent payments made by Prince William County under the lease of transportation facilities, and certain funds established under the Indenture.

Additional information on PRTC's long-term debt is shown in Note 8.

#### **REQUEST FOR INFORMATION**

This financial report is designed to provide our member jurisdictions, customers, and investors and creditors with a general overview of PRTC's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Director of Finance and Administration at the Potomac and Rappahannock Transportation Commission, 14700 Potomac Mills Road, Woodbridge, VA 22192, telephone (703) 583-7782. The web address for PRTC is [www.prtctransit.org](http://www.prtctransit.org).

***FINANCIAL STATEMENTS***

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

| ASSETS  | 2007                 | 2006                 |
|---|----------------------|----------------------|
| <b>Current Assets</b>                                       |                      |                      |
| Cash and investments in bank                                | \$ 13,451,576        | \$ 10,778,334        |
| Cash and investments in pooled funds                        | 899,376              | 789,222              |
| Cash and investments in pooled funds - member jurisdictions | 24,457,579           | 23,568,183           |
| Receivables:  |                      |                      |
| Due from other governments                                  | 11,205,131           | 11,466,985           |
| Miscellaneous   | 552,898              | 224,080              |
| Prepaid expenses and other assets                           | 22,896               | 26,383               |
| Restricted Assets:  |                      |                      |
| Investments held by trustee                                 | 1,135,425            | 1,169,278            |
| <b>Total current assets</b>                                 | <b>51,724,881</b>    | <b>48,022,465</b>    |
| <b>Noncurrent Assets</b>                                    |                      |                      |
| Other Assets:   |                      |                      |
| Unamortized bond issuance costs                             | 33,434               | 42,552               |
| Net investment in direct financing lease                    | 2,481,658            | 3,035,776            |
| <b>Total other assets</b>                                   | <b>2,515,092</b>     | <b>3,078,328</b>     |
| <b>Capital Assets:</b>                                      |                      |                      |
| Transportation Equipment:                                   |                      |                      |
| Buses and related equipment                                 | 42,039,864           | 40,030,113           |
| Other vehicles  | 98,483               | 98,483               |
| Less: accumulated depreciation                              | (16,556,500)         | (13,128,033)         |
| <b>Transportation equipment, net</b>                        | <b>25,581,847</b>    | <b>27,000,563</b>    |
| Building and Equipment:                                     |                      |                      |
| Construction in process                                     | 691,849              | 314,371              |
| Furniture and equipment                                     | 700,890              | 505,931              |
| Bus shelters  | 217,729              | 207,495              |
| Building improvements                                       | 479,118              | 315,815              |
| Building  | 8,052,341            | 8,052,341            |
| Site improvements   | 120,774              | -                    |
| Less: accumulated depreciation                              | (3,224,615)          | (2,864,363)          |
| <b>Building and equipment, net</b>                          | <b>7,038,086</b>     | <b>6,531,590</b>     |
| <b>Total capital assets, net</b>                            | <b>32,619,933</b>    | <b>33,532,153</b>    |
| <b>Total noncurrent assets</b>                              | <b>35,135,025</b>    | <b>36,610,481</b>    |
| <b>Total assets</b>   | <b>\$ 86,859,906</b> | <b>\$ 84,632,946</b> |

See Notes to Financial Statements.



| <b>LIABILITIES AND NET ASSETS</b>                   | <b>2007</b>          | <b>2006</b>          |
|---|----------------------|----------------------|
| <b>Current Liabilities</b>                          |                      |                      |
| Accounts payable and other liabilities              | \$ 2,882,201         | \$ 4,156,116         |
| Accrued payroll and benefits                        | 547,430              | 456,667              |
| Due to other governments                            | 6,599,921            | 3,488,158            |
| Deferred revenue                                    | 44,416               | -                    |
| <b>Liabilities Payable from Restricted Assets:</b>  |                      |                      |
| Bond interest payable                               | 47,314               | 57,581               |
| Revenue bonds payable - current portion             | 735,000              | 700,000              |
|   | <hr/>                | <hr/>                |
| <b>Total current liabilities</b>                    | <b>10,856,282</b>    | <b>8,858,522</b>     |
|   | <hr/>                | <hr/>                |
| <b>Noncurrent Liabilities</b>                       |                      |                      |
| Revenue bonds payable - net of unamortized discount | 2,275,660            | 2,976,749            |
|   | <hr/>                | <hr/>                |
| <b>Total liabilities</b>                            | <b>13,131,942</b>    | <b>11,835,271</b>    |
|   | <hr/>                | <hr/>                |
| <b>Net Assets</b>                                   |                      |                      |
| Invested in capital assets, net of related debt     | 32,090,931           | 32,891,180           |
| Restricted  | 29,436,945           | 30,958,081           |
| Unrestricted  | 12,200,088           | 8,948,414            |
|   | <hr/>                | <hr/>                |
| <b>Total net assets</b>                             | <b>73,727,964</b>    | <b>72,797,675</b>    |
|   | <hr/>                | <hr/>                |
| <b>Total liabilities and net assets</b>             | <b>\$ 86,859,906</b> | <b>\$ 84,632,946</b> |
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POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 Years Ended June 30, 2007 and 2006

|  | 2007                 | 2006                 |
|--|----------------------|----------------------|
| Operating Revenues:                        |                      |                      |
| 2% Motor fuels tax revenues                | \$ 19,627,531        | \$ 18,571,127        |
| Farebox revenues                           | 6,380,938            | 5,833,683            |
| Advertising revenue                        | 734,296              | 450,000              |
| From member jurisdictions                  | 700,000              | 700,000              |
| <b>Total operating revenues</b>            | <b>27,442,765</b>    | <b>25,554,810</b>    |
| Operating Expenses:                        |                      |                      |
| Direct transportation                      | 13,193,461           | 13,163,131           |
| Salaries and related benefits              | 3,543,657            | 3,200,691            |
| Contractual services                       | 14,217,753           | 12,495,810           |
| Other services                             | 844,730              | 793,212              |
| Materials, supplies and minor equipment    | 2,308,215            | 2,331,066            |
| Depreciation and amortization              | 3,880,325            | 3,290,769            |
| <b>Total operating expenses</b>            | <b>37,988,141</b>    | <b>35,274,679</b>    |
| <b>Operating loss</b>                      | <b>(10,545,376)</b>  | <b>(9,719,869)</b>   |
| Nonoperating Revenues (Expenses):          |                      |                      |
| Federal and state grants                   | 28,572,039           | 35,808,209           |
| Pass-through grants - VRE                  | (21,606,004)         | (22,771,855)         |
| Pass-through grants - member jurisdictions | (1,052)              | (177,107)            |
| Reimbursement from member jurisdiction     | 145,882              | 139,629              |
| Investment income                          | 2,007,777            | 1,389,292            |
| Direct financing lease interest income     | 172,742              | 201,887              |
| Bond interest expense                      | (196,096)            | (196,331)            |
| Other revenue                              | 1,248,910            | 1,878,222            |
| Loss on disposal of capital assets         | (3,827)              | (7,067)              |
| <b>Total nonoperating revenues, net</b>    | <b>10,340,371</b>    | <b>16,264,879</b>    |
| <b>Income (loss) before contributions</b>  | <b>(205,005)</b>     | <b>6,545,010</b>     |
| Capital Contributions                      | 1,135,294            | -                    |
| <b>Change in net assets</b>                | <b>930,289</b>       | <b>6,545,010</b>     |
| Net Assets, beginning                      | 72,797,675           | 66,252,665           |
| Net Assets, ending                         | <b>\$ 73,727,964</b> | <b>\$ 72,797,675</b> |

See Notes to Financial Statements.

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2007 and 2006**

|  | 2007               | 2006               |
|--|--------------------|--------------------|
| <b>Cash Flows from Operating Activities:</b>   |                    |                    |
| Receipts from 2% motor fuels tax   | \$ 19,139,369      | \$ 17,993,023      |
| Receipts from customers  | 6,367,441          | 5,367,892          |
| Receipt from member jurisdiction   | 700,000            | 700,000            |
| Receipts from advertising  | 734,296            | 450,000            |
| Payments to suppliers  | (18,641,125)       | (12,767,987)       |
| Payments to member jurisdictions   | (12,007,582)       | (13,163,131)       |
| Payments to employees  | (3,452,894)        | (3,145,272)        |
|  | <hr/>              | <hr/>              |
| <b>Net cash used in operating activities</b>   | <b>(7,160,495)</b> | <b>(4,565,475)</b> |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                   |                    |                    |
| Interest payments on revenue bonds   | (172,742)          | (201,887)          |
| Principal payments on revenue bonds  | (700,000)          | (670,000)          |
| Proceeds from sale of assets   | -                  | 90                 |
| Receipts from direct financing lease   | 872,742            | 871,888            |
| Purchase of buses and related equipment  | (636,674)          | (6,276,342)        |
| Payments for building improvements, construction in process, bus shelters, furniture and equipment | (1,146,887)        | (304,709)          |
|  | <hr/>              | <hr/>              |
| <b>Net cash used in capital and related financing activities</b>                                   | <b>(1,783,561)</b> | <b>(6,580,960)</b> |
| <b>Cash Flows from Noncapital Financing Activities:</b>  |                    |                    |
| Federal and state grants   | 29,006,733         | 31,563,092         |
| Payments for VRE grant - related expenditures  | (19,680,119)       | (21,792,040)       |
| Payments for jurisdiction grant - related expenditures   | (1,052)            | (177,107)          |
|  | <hr/>              | <hr/>              |
| <b>Net cash provided by noncapital financing activities</b>  | <b>9,325,562</b>   | <b>9,593,945</b>   |

See Notes to Financial Statements.

|   | 2007                  | 2006                  |
|---|-----------------------|-----------------------|
| <b>Cash Flows From Investing Activities:</b>                                      |                       |                       |
| Investment income   | \$ 2,007,777          | \$ 1,391,157          |
| Sales and maturities of investments   | 902,203               | 871,888               |
| Purchase of investments   | (868,351)             | (872,485)             |
| Other revenues  | 1,249,657             | 1,287,767             |
|   | <u>3,291,286</u>      | <u>2,678,327</u>      |
| <b>Net cash provided by investing activities</b>                                  | <b>3,291,286</b>      | <b>2,678,327</b>      |
|   | <u>3,672,792</u>      | <u>1,125,837</u>      |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>3,672,792</b>      | <b>1,125,837</b>      |
| <b>Cash and Cash Equivalents</b>  |                       |                       |
| Beginning   | 35,135,739            | 34,009,902            |
| Ending  | <u>\$ 38,808,531</u>  | <u>\$ 35,135,739</u>  |
| <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b> |                       |                       |
| Operating loss  | \$ (10,545,376)       | \$ (9,719,869)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                       |                       |
| Depreciation and amortization   | 3,880,325             | 3,290,769             |
| Changes in assets and liabilities:  |                       |                       |
| (Increase) decrease in:   |                       |                       |
| Due from other governments  | (172,840)             | (887,422)             |
| Miscellaneous receivables   | (328,818)             | (707)                 |
| Prepaid expenses and other assets   | 3,487                 | (9,932)               |
| Increase (decrease) in:   |                       |                       |
| Accounts payable and other liabilities  | (1,273,915)           | 2,884,232             |
| Accrued payroll and benefits  | 90,763                | 55,419                |
| Due to other governments  | 1,185,879             | -                     |
| Retainage payable   | -                     | (22,201)              |
| Deferred revenue  | -                     | (155,764)             |
|   | <u>\$ (7,160,495)</u> | <u>\$ (4,565,475)</u> |
| <b>Net cash used in operating activities</b>                                      | <b>\$ (7,160,495)</b> | <b>\$ (4,565,475)</b> |
| <b>Schedule of Noncash Capital Activities</b>                                     |                       |                       |
| Capital assets acquired through capital contributions                             | \$ 1,135,294          | \$ -                  |
| Capital assets acquired through accounts payable                                  | 14,206                | -                     |

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# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Organization

The Potomac and Rappahannock Transportation Commission (“PRTC” or the “Commission”) was created on June 19, 1986, as a public body corporate and politic under the provisions of Chapter 32, Article 2, Title 15.1, of the *Code of Virginia*, 1950, as amended, for the purpose of facilitating the planning and development of an improved transportation system. The transportation system is composed of transit facilities, public highways, and other modes of transportation required in order to promote orderly transportation into, within, and from the various contiguous counties and cities composing the Commission, and to secure the comfort, convenience, and safety of its citizens through joint action by those contiguous counties and cities. The Commission includes the counties of Prince William and Stafford, as well as the cities of Fredericksburg, Manassas, and Manassas Park (collectively referred to as “member jurisdictions”). The Commission was created to manage and control the function, affairs, and property of PRTC.

The Commission has 15 members, including three from the General Assembly and one ex-officio representative from the Virginia Department of Rail and Public Transportation. The governing body of each member jurisdiction appoints, from among its members, its representatives to act as Commissioners. The composition of the Commission is as follows:

|  | Members  | Represented<br>Jurisdictions |
|--|----------|------------------------------|
| Prince William County                                    | 6        | 1                            |
| Stafford County  | 2        | 1                            |
| Manassas   | 1        | 1                            |
| Manassas Park  | 1        | 1                            |
| Fredericksburg   | 1        | 1                            |
| Commonwealth House of Delegates                          | 2        | 1                            |
| Commonwealth Senate                                      | 1        | 1                            |
| Virginia Department of Rail<br>and Public Transportation | 1        | -                            |
|  | <hr/> 15 | <hr/> 7                      |

Each Commission member, including the Virginia Department of Rail and Public Transportation representative, is entitled to one vote in all matters requiring action by the Commission. A majority vote of the Commission members present and voting, and a majority of the jurisdictions represented are required to act. For purposes of determining the number of jurisdictions present, the Virginia Department of Rail and Public Transportation is not counted as a separate jurisdiction.

Member jurisdictions do not have an explicit equity interest in PRTC. Each jurisdiction controls PRTC’s use of the motor fuel tax proceeds from that jurisdiction.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Organization (Continued)

Revenues of PRTC consist principally of a 2% motor fuel tax and federal and state grants. The fuel tax revenues represent a sales tax on retail sales of motor vehicle fuels levied by the Commonwealth of Virginia through its Department of Taxation. The Department of Taxation collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects operating or originating within a particular jurisdiction.

### Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

**Reporting entity:** PRTC has considered its relationship with the member jurisdictions in establishing the appropriate reporting entity in terms of financial accountability and fiscal dependency. None of the member jurisdictions appoint a voting majority of the Commission. Although action by PRTC, including adoption of a budget and issuance of debt, requires approval of a majority of the member jurisdictions, each jurisdiction controls PRTC's use of its 2% motor fuel tax proceeds. PRTC is not fiscally dependent on one particular jurisdiction. Thus, PRTC does not consider itself a component unit of any government.

The Virginia Railway Express ("VRE") is jointly operated and controlled by PRTC and the Northern Virginia Transportation Commission ("NVTC") (see Note 10). Neither PRTC nor NVTC appoints a voting majority of the Operations Board of VRE. PRTC has no equity investment in VRE. VRE is fiscally dependent on PRTC, NVTC, its member jurisdictions, and grants from the Commonwealth of Virginia and the federal government, and, therefore, is not included as a component unit of PRTC.

**Basis of presentation:** The accounting policies of PRTC conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units. While separate funds are maintained to account for each member jurisdiction's 2% motor fuel tax revenues, one combined enterprise fund is used for financial statement presentation. The activities of PRTC are similar to those of proprietary funds of local jurisdictions.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, PRTC has elected to apply all applicable GASB pronouncements, as well as FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.



# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Summary of Significant Accounting Policies (Continued)

**Basis of accounting:** Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made, regardless of the measurement focus applied. PRTC uses the accrual basis of accounting, where revenues are recognized when they are earned and expenses are recognized when they are incurred.

**Cash and investments in pooled funds:** Cash and investments in pooled funds represent PRTC's share of the pooled cash and investments held by the Local Government Investment Pool ("LGIP") as the trustee for the jurisdictional funds. The LGIP holds and invests certain funds of PRTC on its behalf. The investment in the LGIP (a 2a7-like pool) is reported at the pool's share price.

**Cash and investments in pooled funds – member jurisdictions:** These assets represent the portion of funds held for the benefit of the member jurisdictions.

The Commission classifies as cash and cash equivalents amounts on deposit with banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase.

**Restricted assets:** Cash and investments held by trustee include bond proceeds and funds designated for specific purposes. The Trustee, The Bank of New York, maintains the resources in appropriate accounts in accordance with the Master Indenture of Trust.

**Capital assets:** Capital assets are stated at historical cost. Capital assets are defined by PRTC as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of all exhaustible equipment and building is charged as an expense against operations using the straight-line method over the following estimated useful lives:

|                             |              |
|-----------------------------|--------------|
| Building and improvements   | 5 - 30 years |
| Buses and related equipment | 4 - 15 years |
| Other vehicles              | 5 years      |
| Bus shelters                | 5 years      |
| Furniture and equipment     | 5 years      |
| Site improvements           | 20 years     |

## POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Net investment in direct financing lease:** Net investment in direct financing lease is recorded at the gross minimum lease payments receivable less unearned income representing interest on the transaction and deferred contributions. Unearned income is recognized over the term of the lease in amounts equal to interest on the related outstanding bonds.

**Compensated absences:** PRTC employees are granted annual and sick leave based on years of service. In the event of termination, an employee is reimbursed for accumulated annual leave in full, and if applicable, a portion of sick leave. Compensatory time earned by PRTC employees is also payable upon termination of employment. The liability for compensated absences is included in accrued payroll and benefits in the accompanying financial statements as a current liability.

**Bond discounts and issuance costs:** Bond discounts and issuance costs are deferred and amortized over the term of the bonds using a method which approximates the effective interest method.

**Revenue recognition:** Intergovernmental revenues, consisting primarily of Federal and Commonwealth of Virginia grants, designated for payment of specific expenses, are recognized at the time that the expenses are incurred. Capital grants and assistance are recognized as additions are made to capital assets and operating resources are included in the Statements of Revenues, Expenses and Changes in Net Assets when expended.

**Operating revenues and expenses:** Operating revenues are generated from activities related to providing public transportation services to PRTC's customers. PRTC's operating revenues include 2% motor fuel tax revenues, farebox revenues, advertising revenue, and contributions from member jurisdictions. Nonoperating revenues include federal and state grants, investment income, and reimbursement from member jurisdictions.

Operating expenses are incurred for activities related to providing public transportation services to PRTC's customers. PRTC's operating expenses include direct transportation expenses and general and administrative expenses. Nonoperating expenses include interest expense.

**Statement of cash flows:** For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, pooled funds, money market funds, overnight repurchase agreements, and U. S. Government agency obligations having an original maturity of three months or less.

**Estimates and assumptions:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 3. Cash and Investments

**Deposits:** All cash of PRTC is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

**Investments:** State statutes authorize local governments and other public bodies to invest in obligations of the United States or its agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; bankers' acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The Commission has investments in the LGIP, Dreyfus Cash Management Fund (DCMF), and STI Classic Institutional Government Funds (STI). The LGIP, DCMF, and the STI are professionally managed money market funds which invest in qualifying obligations and securities as permitted by state statutes. Pursuant to Section 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP and STI have been assigned an "AAAm" and the DCMF has been assigned an "Aaa" rating by Standard & Poor's. The maturity of the LGIP, DCMF, and STI is less than one year.

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment if the investment is held for a long period of time. Interest rate risk does not apply to the LGIP since it is a 2a7-like pool.

As of June 30, 2007, the carrying values and maturity of PRTC's investments were as follows:

| Investment Type          | Fair Value           | Maturities Less Than One Year |
|--------------------------|----------------------|-------------------------------|
| LGIP                     | \$ 25,356,955        | \$ 25,356,955                 |
| Money market funds       | 14,783,425           | 14,783,425                    |
| <b>Total investments</b> | <b>\$ 40,140,380</b> | <b>\$ 40,140,380</b>          |

PRTC has adopted a formal investment policy. The policy specifies eligible and ineligible investments; diversification requirements; maximum length of time for various types of investments; and the process for purchasing securities.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 3. Cash and Investments (Continued)

PRTC's investment policy establishes the maximum percentages of the portfolio permitted on each of the following instruments:

#### Authorized Investments

Authorized investments for public funds are set forth in Chapter 18, Section 2.1-327 to 2.1-329.1 of the *Code of Virginia*. The following are included on the list of authorized investments:

1. Obligations issued or guaranteed by the U. S. Government, an agency thereof, or U. S. Government sponsored corporation.
2. Certificates of deposit and time deposits in any of Virginia's qualified public depositories federally insured to the maximum extent possible and collateralized under the Virginia Security for Public Deposits Act.
3. Repurchase agreements collateralized by U. S. Treasury/agency securities.
4. Bankers' acceptances from "prime quality" major U. S. banks and domestic offices of international banks.
5. "Prime quality" commercial paper issued by domestic corporations.
6. Short-term corporate notes and/or bank notes of domestic corporations/banks.
7. The LGIP as established by the Virginia Department of the Treasury.

#### Diversification

Diversification of investments by security type and by issuer will be consistent with the following guidelines:

1. The portfolio will be diversified with not more than 5% of the value of the investment pool's assets invested in the securities of any single issuer. This limitation will not apply to securities of the U. S. Government or agency thereof, government sponsored corporation securities, or fully insured and/or collateralized certificates of deposit.
2. PRTC's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

|                                      |              |
|--------------------------------------|--------------|
| LGIP                                 | 100% maximum |
| U. S. Treasury and Agency Securities | 100% maximum |
| Certificates of Deposit              | 25% maximum  |
| Repurchase Agreements                | 50% maximum  |
| Bankers' Acceptances                 | 40% maximum  |
| Commercial Paper                     | 35% maximum  |
| Corporate Notes and Bank Notes       | 25% maximum  |

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Cash and Investments (Continued)**

Funds are held in the LGIP for the benefit of the various member jurisdictions as follows:

|                        | <u>2007</u>          | <u>2006</u>          |
|------------------------|----------------------|----------------------|
| Stafford County        | \$ 2,454,664         | \$ 2,919,498         |
| Prince William County  | 12,491,182           | 11,820,156           |
| City of Manassas       | 2,159,569            | 1,995,157            |
| City of Manassas Park  | 1,939,420            | 1,587,855            |
| City of Fredericksburg | 5,412,744            | 5,245,517            |
|                        | <u>\$ 24,457,579</u> | <u>\$ 23,568,183</u> |

**Note 4. Restricted Assets**

Restricted assets held by the Trustee represent the portion of resources held by the Trustee on behalf of PRTC in accordance with the applicable bond covenants. These assets include cash and investments. The accounts established under the indenture of trust have the following restricted assets held by the Trustee at June 30, 2007 and 2006:

|  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| Bond fund                                      | \$ 384,486          | \$ 359,051          |
| Debt service reserve fund                      | 750,939             | 810,227             |
| <b>Total restricted assets held by trustee</b> | <u>\$ 1,135,425</u> | <u>\$ 1,169,278</u> |

**Note 5. Due To/From Other Governments**

Amounts due from other governments are as follows:

|   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| Virginia Department of Taxation -<br>2% motor fuel tax receipts | \$ 3,942,903         | \$ 3,454,741         |
| Virginia Department of Rail and Public Transportation           | 336,570              | 1,530,727            |
| VRE direct reimbursement  | 678,819              | 868,310              |
| Federal Transit Administration:                                 |                      |                      |
| Grant proceeds  | 2,197,373            | 3,394,218            |
| VRE grant expenditures  | 3,890,332            | 1,934,025            |
| Washington Metropolitan Area Transit Authority                  | 159,134              | 284,964              |
|   | <u>\$ 11,205,131</u> | <u>\$ 11,466,985</u> |

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Due To/From Other Governments (Continued)**

Amounts due to other governments are as follows:

|   | 2007                | 2006                |
|---|---------------------|---------------------|
| Virginia Railway Express                    | \$ 5,414,043        | \$ 3,488,158        |
| City of Manassas                            | 548,470             | -                   |
| City of Fredericksburg                      | 449,868             | -                   |
| Northern Virginia Transportation Commission | 187,540             | -                   |
|   | <u>\$ 6,599,921</u> | <u>\$ 3,488,158</u> |

**Note 6. Net Investment in Direct Financing Lease**

PRTC has entered into a lease agreement with Prince William County (the "County") for transportation facilities constructed with the proceeds from the transportation facilities lease revenue bonds (see Note 8). In accordance with this agreement, PRTC has made available to the County \$5,500,000 of the \$9,405,000 bond proceeds. The lease agreement indicates the County is responsible for acquiring land, constructing, and maintaining two railway stations – Broad Run and Rippon – located within the County. Rentals under the lease are equal to the bond debt service and related fees and expenses. The lease term is equivalent to the life of the bonds, and ownership of the constructed facilities reverts to the County at the end of the lease term. Accordingly, the future net rentals have been capitalized as a direct financing lease receivable as follows:

| Year Ending June 30,           | Amount                     |
|--------------------------------|----------------------------|
| 2008                           | \$ 876,942                 |
| 2009                           | 874,235                    |
| 2010                           | 874,810                    |
| 2011                           | <u>873,410</u>             |
| Net minimum rentals            | 3,499,397                  |
| Less: Unearned income          | (364,397)                  |
| Deferred contributions         | <u>(653,342)</u>           |
| <b>Net investment in lease</b> | <u><u>\$ 2,481,658</u></u> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Changes in capital assets for the year ended June 30, 2007 are as follows:

|  | Balance<br>June 30,<br>2006 | Increases           | Reclassifications/<br>Decreases | Balance<br>June 30,<br>2007 |
|--|-----------------------------|---------------------|---------------------------------|-----------------------------|
| Capital assets not being depreciated:              |                             |                     |                                 |                             |
| Construction in progress                           | \$ 314,371                  | \$ 631,063          | \$ (253,585)                    | \$ 691,849                  |
| Capital assets being depreciated:                  |                             |                     |                                 |                             |
| Buses and related equipment                        | 40,030,113                  | 1,786,174           | 223,577                         | 42,039,864                  |
| Other vehicles                                     | 98,483                      | -                   | -                               | 98,483                      |
| Furniture and equipment                            | 505,931                     | 238,045             | (43,086)                        | 700,890                     |
| Bus shelters                                       | 207,495                     | 11,937              | (1,703)                         | 217,729                     |
| Building improvements                              | 315,815                     | 166,375             | (3,072)                         | 479,118                     |
| Buildings  | 8,052,341                   | -                   | -                               | 8,052,341                   |
| Site improvements                                  | -                           | 99,467              | 21,307                          | 120,774                     |
| <b>Total capital assets being depreciated</b>      | <b>49,210,178</b>           | <b>2,301,998</b>    | <b>197,023</b>                  | <b>51,709,199</b>           |
| Less accumulated depreciation for:                 |                             |                     |                                 |                             |
| Buses and related equipment                        | 13,044,600                  | 3,420,097           | -                               | 16,464,697                  |
| Other vehicles                                     | 83,433                      | 8,370               | -                               | 91,803                      |
| Furniture and equipment                            | 359,483                     | 72,738              | (42,843)                        | 389,378                     |
| Bus shelters                                       | 137,157                     | 32,221              | (9,414)                         | 159,964                     |
| Building improvements                              | 87,980                      | 36,094              | (478)                           | 123,596                     |
| Buildings  | 2,279,743                   | 268,411             | -                               | 2,548,154                   |
| Site improvements                                  | -                           | 3,523               | -                               | 3,523                       |
| <b>Total accumulated depreciation</b>              | <b>15,992,396</b>           | <b>3,841,454</b>    | <b>(52,735)</b>                 | <b>19,781,115</b>           |
| <b>Total capital assets being depreciated, net</b> | <b>33,217,782</b>           | <b>(1,539,456)</b>  | <b>249,758</b>                  | <b>31,928,084</b>           |
| <b>Totals</b>                                      | <b>\$ 33,532,153</b>        | <b>\$ (908,393)</b> | <b>\$ (3,827)</b>               | <b>\$ 32,619,933</b>        |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**Note 7. Capital Assets (Continued)**

Changes in capital assets for the year ended June 30, 2006 are as follows:

|  | Balance<br>June 30,<br>2005 | Increases           | Reclassifications/<br>Decreases | Balance<br>June 30,<br>2006 |
|--|-----------------------------|---------------------|---------------------------------|-----------------------------|
| Capital assets not being depreciated:              |                             |                     |                                 |                             |
| Construction in progress                           | \$ 113,932                  | \$ 212,039          | \$ (11,600)                     | \$ 314,371                  |
| Capital assets being depreciated:                  |                             |                     |                                 |                             |
| Buses and related equipment                        | 33,766,608                  | 6,276,342           | (12,837)                        | 40,030,113                  |
| Other vehicles                                     | 98,483                      | -                   | -                               | 98,483                      |
| Furniture and equipment                            | 538,130                     | 65,238              | (97,437)                        | 505,931                     |
| Bus shelters                                       | 182,484                     | 18,184              | 6,827                           | 207,495                     |
| Building improvements                              | 312,819                     | 9,248               | (6,252)                         | 315,815                     |
| Buildings  | 8,052,341                   | -                   | -                               | 8,052,341                   |
| <b>Total capital assets being depreciated</b>      | <b>42,950,865</b>           | <b>6,369,012</b>    | <b>(109,699)</b>                | <b>49,210,178</b>           |
| Less accumulated depreciation for:                 |                             |                     |                                 |                             |
| Buses and related equipment                        | 10,192,769                  | 2,864,668           | (12,837)                        | 13,044,600                  |
| Other vehicles                                     | 72,050                      | 11,383              | -                               | 83,433                      |
| Furniture and equipment                            | 408,707                     | 47,312              | (96,536)                        | 359,483                     |
| Bus shelters                                       | 107,792                     | 31,910              | (2,545)                         | 137,157                     |
| Building improvements                              | 61,988                      | 28,214              | (2,222)                         | 87,980                      |
| Buildings  | 2,011,332                   | 268,411             | -                               | 2,279,743                   |
| <b>Total accumulated depreciation</b>              | <b>12,854,638</b>           | <b>3,251,898</b>    | <b>(114,140)</b>                | <b>15,992,396</b>           |
| <b>Total capital assets being depreciated, net</b> | <b>30,096,227</b>           | <b>3,117,114</b>    | <b>4,441</b>                    | <b>33,217,782</b>           |
| <b>Totals</b>                                      | <b>\$ 30,210,159</b>        | <b>\$ 3,329,153</b> | <b>\$ (7,159)</b>               | <b>\$ 33,532,153</b>        |

**Note 8. Long-Term Liabilities**

**Revenue bonds payable:** On February 1, 1991, PRTC issued Transportation Facilities Lease Revenue Bonds, Series 1991A in the aggregate principal amount of \$9,405,000. The Series 1991A bonds were issued to: (1) finance part of the costs of the acquisition, design, and construction of transportation facilities in Prince William County, (2) make certain deposits to the Debt Service Reserve Fund, and (3) pay certain costs of issuance.



# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Long-Term Liabilities (Continued)

On December 1, 1997, PRTC issued \$7,445,000 in Transportation Facilities Lease Revenue Refunding Bonds. The 1997 bonds were issued to “refinance” PRTC’s 1991 bonds to achieve interest cost savings. The refunding of the 1991 bonds was a “crossover” refunding. The proceeds of the 1997 bonds were placed in an escrow account with the Trustee until March 1, 2000 (the crossover refunding date). Through the crossover refunding date, interest on the 1997 bonds was payable from the escrow account. On March 1, 2000, the escrow account crossed over and paid the remaining principal on the 1991 bonds. PRTC continued to pay debt service on the 1991 bonds through March 1, 2000. Beginning with the first interest payment due after the crossover date, which was September 1, 2000, PRTC began making debt service payments on the 1997 bonds, taking advantage of the lower interest rates.

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

|  | Beginning<br>Balance | Increases   | Decreases           | Ending<br>Balance   | Due Within<br>One Year |
|--|----------------------|-------------|---------------------|---------------------|------------------------|
| 1997 facility lease revenue<br>refunding bond, \$7,445,000,<br>4.0%-4.6% | \$ 3,835,000         | \$ -        | \$ (700,000)        | \$ 3,135,000        | \$ 735,000             |
| 1997 bond discount   | (158,251)            | -           | 33,911              | (124,340)           | -                      |
| <b>Total long-term liabilities</b>                                       | <b>\$ 3,676,749</b>  | <b>\$ -</b> | <b>\$ (666,089)</b> | <b>\$ 3,010,660</b> | <b>\$ 735,000</b>      |

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

|  | Beginning<br>Balance | Increases   | Decreases           | Ending<br>Balance   | Due Within<br>One Year |
|--|----------------------|-------------|---------------------|---------------------|------------------------|
| 1997 facility lease revenue<br>refunding bond, \$7,445,000,<br>4.0%-4.6% | \$ 4,505,000         | \$ -        | \$ (670,000)        | \$ 3,835,000        | \$ 700,000             |
| 1997 bond discount   | (192,162)            | -           | 33,911              | (158,251)           | -                      |
| <b>Total long-term liabilities</b>                                       | <b>\$ 4,312,838</b>  | <b>\$ -</b> | <b>\$ (636,089)</b> | <b>\$ 3,676,749</b> | <b>\$ 700,000</b>      |

### Debt Service Requirements

The 1997 bonds mature annually beginning in 2001 in increasing amounts through 2011, with \$835,000 due March 1, 2011. The 1997 bonds bear interest at rates from 4.0% to 4.6% with interest payable semi-annually on March 1 and September 1. Revenue bond debt service requirements to maturity are as follows:

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 8. Long-Term Liabilities (Continued)

| Year Ending June 30, | Principal           | Interest          | Total               |
|----------------------|---------------------|-------------------|---------------------|
| 2008                 | \$ 735,000          | \$ 141,942        | \$ 876,942          |
| 2009                 | 765,000             | 109,235           | 874,235             |
| 2010                 | 800,000             | 74,810            | 874,810             |
| 2011                 | 835,000             | 38,410            | 873,410             |
|                      | <u>\$ 3,135,000</u> | <u>\$ 364,397</u> | <u>\$ 3,499,397</u> |

#### *Pledged Funds*

The payment of principal and interest on the 1997 bonds is secured by a pledge of (1) Prince William County's portion of 2% motor fuel tax revenues, (2) basic rent payments made by Prince William County under the lease of the transportation facilities (see Note 6), and (3) certain funds established under the Indenture.

#### *Accounts Established in Accordance with the Indentures*

The following funds are established under the 1991 Indentures and carried over to the 1997 Indenture:

- (1) Project Fund, with a Capitalized Interest Account, a Commuter Stations Account, and an Optional Facilities Account
- (2) Bond Fund
- (3) Debt Service Reserve Fund
- (4) Cost of Issuance Fund

All revenues and all money in the Project Fund, the Bond Fund, the Cost of Issuance Fund, and the Debt Service Reserve Fund are trust funds and are pledged to the payment of principal and interest on the bonds.

The Indenture requires PRTC to make monthly deposits from Prince William County's portion of 2% motor fuel tax revenues to the Bond Fund so that it will contain the amount required for the next succeeding principal and/or interest payment on the bonds 60 days before the payment date. To the extent Prince William County's portion of 2% motor fuel tax revenues is not sufficient to meet the scheduled debt service payment, Prince William County will make lease payments to PRTC.

The following funds are established under the 1997 Indenture:

- (1) Cost of Issuance Fund
- (2) Escrow Account

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 9. Net Assets

Restricted net assets represent net assets that are subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net assets as of June 30, 2007 and 2006:

|                                    | <u>2007</u>                 | <u>2006</u>                 |
|------------------------------------|-----------------------------|-----------------------------|
| Member jurisdictions               | \$ 27,402,144               | \$ 28,999,580               |
| Debt service                       | 2,034,801                   | 1,958,501                   |
| <b>Total restricted net assets</b> | <b><u>\$ 29,436,945</u></b> | <b><u>\$ 30,958,081</u></b> |

Unrestricted net assets consist of the following as of June 30, 2007 and 2006:

|  | <u>2007</u>                 | <u>2006</u>                |
|--|-----------------------------|----------------------------|
| Designations of unrestricted net assets: |                             |                            |
| Carryforward to support next year budget | \$ 5,782,463                | \$ 1,817,412               |
| Local match for grants                   | 2,864,088                   | 1,862,344                  |
| <b>Total designations</b>                | <b>8,646,551</b>            | <b>3,679,756</b>           |
| Undesignated unrestricted net assets     | <u>3,553,537</u>            | <u>5,268,658</u>           |
| <b>Total unrestricted net assets</b>     | <b><u>\$ 12,200,088</u></b> | <b><u>\$ 8,948,414</u></b> |

### Note 10. Virginia Railway Express

PRTC and the NVTC entered into a Master Agreement dated October 27, 1989, establishing the VRE. VRE provides commuter rail service originating in Manassas, Virginia, and Fredericksburg, Virginia, to Union Station in the District of Columbia, using existing rail tracks.

VRE is managed by an Operations Board consisting of three commissioners appointed from each of PRTC and NVTC and one ex-officio representative of the Virginia Department of Rail and Public Transportation. The Operations Board is responsible for the financial management of VRE. NVTC serves as the repository of all monies. Operational and capital costs of the rail service are financed by bond issues, Federal and state grants, local jurisdiction assistance, and passenger revenue. Assistance to be provided by the local jurisdictions is based on a population and ridership formula for participating jurisdictions and a predetermined contribution amount from contributing jurisdictions. Participating jurisdictions include the counties of Fairfax, Prince William and Stafford and the cities of Manassas, Manassas Park, and Fredericksburg. Contributing jurisdictions include Arlington County and the City of Alexandria.

## POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 10. Virginia Railway Express (Continued)**

In July 2007, PRTC and NVTC adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions, and provided for board representation proportionate to system ridership and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the current 90% system ridership and 10% population formula. The amendment to the subsidy formula is being phased in over four years, beginning in fiscal year 2008.

As a result of these changes, PRTC and NVTC appointed a new slate of members who were installed at the Operations Board meeting in August 2007. While all jurisdictions have adopted the Master Agreement amendments in concept, work is currently underway to have independent adoption of the actual changes and signature of the agreement.

For the years ended June 30, 2007 and 2006, PRTC paid \$4,601,625 and \$3,465,655, respectively, for VRE support on behalf of its member jurisdictions.

#### **Note 11. Revenue from Member Jurisdictions**

Effective May 13, 1991, Prince William County transferred operating responsibility of its OmniRide (Commuteride) Program to PRTC. The program consists of express commuter bus service from the County to the District of Columbia, as well as ridesharing services. During the fiscal year 1995, PRTC began operating local bus service ("OmniLink") within Prince William County and in fiscal year 1996 began local bus service in the cities of Manassas and Manassas Park. These services are financed by passenger fares, state grants, 2% motor fuel tax, and other jurisdictional payments.

During the years ended June 30, 2007 and 2006, PRTC recognized \$700,000, respectively, as revenue from Prince William County in addition to the 2% motor fuel tax.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 12. Direct Transportation Expenses

In addition to PRTC administrative costs, the member jurisdictions authorize disbursements from their respective 2% motor fuel tax revenues for transportation projects operating or originating within their jurisdiction. During the years ended June 30, 2007 and 2006, amounts expended for joint and jurisdictional transportation projects consisted of:

|  | 2007                 | 2006                 |
|--|----------------------|----------------------|
| VRE support  | \$ 4,601,625         | \$ 3,465,655         |
| Other jurisdictional projects and fees                           | 7,071,773            | 8,170,954            |
| Deposits to 1997 bond funds                                      | 872,742              | 871,888              |
| Refunded IDA bonds/lease participation certificates debt service | 647,321              | 654,634              |
|  | <u>\$ 13,193,461</u> | <u>\$ 13,163,131</u> |

VRE payments are made in accordance with a capital budget prepared by VRE and adopted by its Operations Board.

### Note 13. Pass-Through Grants – VRE

PRTC receives Federal and State financial assistance on behalf of the VRE. VRE submits reimbursement requests to PRTC which then submits them to the granting agency. Upon receipt of the funds, they are passed on to VRE. For the years ended June 30, 2007 and 2006, grant revenue in the accompanying financial statements includes \$21,606,004 and \$22,771,855, respectively, in Federal, State, and local assistance received by PRTC that was passed on to VRE.

### Note 14. Risk Management

PRTC 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. Commercial insurance is purchased to address these risks, including workers' compensation and employee health and accidental insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Note 15. Related Parties

For the years ended June 30, 2007 and 2006, expenses incurred for legal services provided by Prince William County were \$39,000, respectively.

## POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### Note 16. Deferred Compensation Benefits

PRTC offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of plan participants and/or beneficiaries. PRTC has the duty of due care that would be required of any prudent investor.

PRTC contributions to the deferred compensation plan for the years ended June 30, 2007 and 2006 were \$7,920 and \$7,365, respectively.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the years ended June 30, 2007 and 2006 were \$33,755 and \$31,740, respectively.

#### Note 17. Defined Benefit Pension Plan

##### A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

PRTC contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.7% of their average final compensation ("AFC") for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment ("COLA") beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 17. Defined Benefit Pension Plan (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/2006annurept.pdf> or obtained by writing the Virginia Retirement System at P. O. Box 2500, Richmond, VA, 23218-2500.

#### B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported salary to the VRS. This 5% member contribution has been assumed by PRTC for its employees. In addition, PRTC is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The PRTC contribution rate for the fiscal year ended June 30, 2007, was 10.54% of the annual covered payroll.

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2007, 2006, and 2005 was \$2,422,409, \$2,233,450, and \$2,087,250, respectively, for PRTC employees and \$2,541,703, \$2,394,250, and \$2,126,337, respectively, for VRE employees. Total payroll for the years ended June 30, 2007, 2006, and 2005 was \$2,695,803, \$2,473,800, and \$2,296,429, respectively, for PRTC and \$2,598,705, \$2,496,176, and \$2,207,029, respectively, for VRE.

#### C. Annual Pension Cost (APC)

For fiscal year 2007, PRTC's annual pension cost of \$523,217 was equal to the required and actual contribution. The required contributions were determined as part of an actuarial valuation performed as of June 30, 2006, using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) a 2.5% per year cost-of-living adjustment. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. PRTC's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Three-year trend information for PRTC is as follows:

| <u>Fiscal Year Ended</u> | <u>Annual Pension Cost</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------------|----------------------------|--------------------------------------|-------------------------------|
| June 30, 2007            | \$ 523,217                 | 100%                                 | \$ -                          |
| June 30, 2006            | 532,236                    | 100%                                 | -                             |
| June 30, 2005            | 484,562                    | 100%                                 | -                             |

## POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### Note 18. Pending GASB Statements

At June 30, 2007, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by PRTC. The statements which might impact PRTC are as follows:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards from the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplemental information. Statement No. 45 will be effective for periods beginning after December 15, 2007.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, established criteria that governments will use to ascertain whether the proceeds received collateralized by future collections of receivables or revenues should be reported as revenues or as a liability. Statement No. 48 will be effective for periods beginning after December 15, 2006.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies circumstances requiring a liability to be reported for pollution remediation. Statement No. 49 will be effective for periods beginning after December 15, 2007.

GASB Statement No. 50, *Pension Disclosures*, establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. Statement No. 50 will be effective for periods beginning after June 15, 2007.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, established standards of accounting and financial reporting for intangible assets. Statement No. 51 will be effective for periods beginning after June 15, 2009.

#### Note 19. Subsequent Events

PRTC entered into interim note agreements on July 19, 2007 for \$4,200,000 to finance the costs of land acquisition, design, construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of a bus storage yard.

During September 2007, the Commission authorized the award of a contract to purchase eleven new buses for a cost of approximately \$5,000,000. Also during September 2007, the Commission authorized the award of a construction contract for the bus yard expansion project for approximately \$1,100,000.

PRTC entered into contracts to purchase fuel at set prices for delivery in September, October, November and December. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 252,000 gallons of fuel at approximately \$567,000.



***REQUIRED SUPPLEMENTARY INFORMATION***



**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability | Unfunded<br>Actuarial<br>Accrued<br>Liability | Funded<br>Ratio | Annual<br>Covered<br>Payroll | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>as a<br>Percentage<br>of Covered<br>Payroll |
|--------------------------------|---------------------------------|-----------------------------------|---|-----------------|------------------------------|--|
| June 30, 2006                  | \$ 3,904,965                    | \$ 4,113,551                      | \$ 208,586                                    | 94.93%          | \$ 4,766,179                 | 4.38%  |
| June 30, 2005                  | 3,224,034                       | 3,541,143                         | 317,109                                       | 91.05%          | 4,425,778                    | 7.17%  |
| June 30, 2004                  | 2,704,610                       | 2,944,583                         | 239,973                                       | 91.85%          | 3,972,514                    | 6.04%  |

Note: Since PRTC and VRE are combined for the actuarial valuation, the amounts above include both entities.

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***SUPPLEMENTARY INFORMATION***



POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS

Year Ended June 30, 2007

|   | City of<br>Fredericksburg | City of<br>Manassas | City of<br>Manassas<br>Park | County of<br>Prince<br>William | County of<br>Stafford | Total             |
|---|---------------------------|---------------------|-----------------------------|--------------------------------|-----------------------|-------------------|
| Funds Available - July 1, 2006                        | \$ 5,534,009              | \$ 2,298,769        | \$ 1,755,162                | \$ 15,812,883                  | \$ 3,598,757          | \$ 28,999,580     |
| Funds Received:                                       |                           |                     |                             |                                |                       |                   |
| 2% fuel tax   | 1,545,041                 | 1,518,027           | 852,662                     | 11,794,533                     | 3,917,268             | 19,627,531        |
| Other   | -                         | 11,431              | -                           | 1,330,020                      | -                     | 1,341,451         |
| Interest  | 289,691                   | 91,407              | 96,365                      | 572,562                        | 195,408               | 1,245,433         |
| <b>Total funds received</b>                           | <b>1,834,732</b>          | <b>1,620,865</b>    | <b>949,027</b>              | <b>13,697,115</b>              | <b>4,112,676</b>      | <b>22,214,415</b> |
| Funds Disbursed:                                      |                           |                     |                             |                                |                       |                   |
| Direct transportation expenses:                       |                           |                     |                             |                                |                       |                   |
| VRE capital support                                   | 111,115                   | 428,436             | 183,686                     | 2,961,241                      | 917,147               | 4,601,625         |
| Other projects  | 1,976,488                 | 1,280,762           | 260,404                     | -                              | 3,554,119             | 7,071,773         |
| Deposits to 1997 bond fund                            | -                         | -                   | -                           | 872,742                        | -                     | 872,742           |
| Debt service for refunded IDA bonds                   | -                         | -                   | -                           | 647,321                        | -                     | 647,321           |
| Transfers to PRTC:                                    |                           |                     |                             |                                |                       |                   |
| Administrative expenses                               | 7,222                     | 23,385              | 14,841                      | 174,382                        | 27,086                | 246,916           |
| OmniRide, OmniLink, Capital Improvement,<br>Marketing | -                         | 227,541             | 108,681                     | 10,035,252                     | -                     | 10,371,474        |
| <b>Total funds disbursed</b>                          | <b>2,094,825</b>          | <b>1,960,124</b>    | <b>567,612</b>              | <b>14,690,938</b>              | <b>4,498,352</b>      | <b>23,811,851</b> |
| Funds Available - June 30, 2007                       | \$ 5,273,916              | \$ 1,959,510        | \$ 2,136,577                | \$ 14,819,060                  | \$ 3,213,081          | \$ 27,402,144     |

Note 1 - The schedule of member jurisdictions funds is prepared on an accrual basis and reflects the funds held by the Potomac and Rappahannock Transportation Commission (PRTC) for the benefit of the various member jurisdictions and the activity for the year ended June 30, 2007. Total funds available reconcile to amounts reported on the balance sheet as follows:

|  |                      |
|--|----------------------|
| Cash and investments in pooled funds - member jurisdictions      | \$ 24,457,579        |
| Due from other governments - 2% motor fuels tax revenue receipts | 3,942,903            |
| Due to other governments - member jurisdictions                  | (998,338)            |
|  | <u>\$ 27,402,144</u> |

Note 2 - Expenses for other jurisdictional projects consist of:

|  |                     |                     |                   |             |                     |                     |
|--|---------------------|---------------------|-------------------|-------------|---------------------|---------------------|
| Road improvements, traffic signals, sidewalks  | \$ 885,000          | \$ 949,070          | \$ 260,404        | \$ -        | \$ 2,641,471        | \$ 4,735,945        |
| Station improvements   | 154,703             | -                   | -                 | -           | -                   | 154,703             |
| Street signs, human services transportation,<br>bike trails, airport authority, GWRC | -                   | -                   | -                 | -           | 513,189             | 513,189             |
| Parking garage construction and debt service,<br>commuter parking leases             | 739,857             | 331,692             | -                 | -           | -                   | 1,071,549           |
| FRED transit costs   | 150,925             | -                   | -                 | -           | 399,459             | 550,384             |
| Parking enforcement equipment  | 46,003              | -                   | -                 | -           | -                   | 46,003              |
|  | <u>\$ 1,976,488</u> | <u>\$ 1,280,762</u> | <u>\$ 260,404</u> | <u>\$ -</u> | <u>\$ 3,554,119</u> | <u>\$ 7,071,773</u> |

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF EXPENSES OF STATE AWARDS**

**Year Ended June 30, 2007**

|   | State Grant<br>Number | Expenses                        |
|---|-----------------------|---------------------------------|
| <b>VIRGINIA DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION:</b> |                       |                                 |
| <u>Direct Payments:</u>                                       |                       |                                 |
| Formula assistance  | 72006-50; 72007-29    | \$ 2,974,478                    |
| Ridesharing assistance  | 71006-11; 71007-10    | 126,000                         |
| Transportation intern   | 71206-09              | 25,640                          |
| Transit development plan                                      | 71505-11              | 21,239                          |
| Capital - FY03  | 73003-15              | 77,714                          |
| Capital - FY05  | 73005-15              | 348,186                         |
| Capital - FY06  | 73006-22              | 741,552                         |
| Capital - FY07  | 73007-26              | 154,343                         |
|   |                       | <hr/> 4,469,152                 |
| <u>Passthrough to VRE:</u>                                    |                       |                                 |
| Capital - FY98  | 73098-02              | 13,534                          |
| Capital - FY05  | 73005-15              | 26,455                          |
| SmarTrip expansion program                                    | 73501-52              | 5,152                           |
|   |                       | <hr/> 45,141                    |
| <b>Total expenses of State awards</b>                         |                       | <hr/> <b>\$ 4,514,293</b> <hr/> |



***COMPLIANCE SECTION***



**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF EXPENSES OF FEDERAL AWARDS  
Year Ended June 30, 2007**

| <b>Federal Granting Agency/Recipient State Agency/<br/>Grant Program/Grant Number</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenses</b>             |
|---|------------------------------------|-----------------------------|
| <b>DEPARTMENT OF TRANSPORTATION:</b>  |                                    |                             |
| <u>Direct Payments:</u>   |                                    |                             |
| Federal Transit Administration:   |                                    |                             |
| VA-90-X207  | 20.500                             | \$ 76,625                   |
| VA-90-X250  | 20.500                             | 90,872                      |
| VA-90-X269  | 20.500                             | 51,740                      |
| VA-90-X284  | 20.500                             | 300,000                     |
| VA-90-X307  | 20.500                             | 1,992,227                   |
|   |                                    | <u>2,511,464</u>            |
| Passthrough to VRE:   |                                    |                             |
| VA-03-0074  | 20.500                             | 107,340                     |
| VA-03-0078  | 20.500                             | 1,069,865                   |
| VA-03-0079  | 20.500                             | 565,511                     |
| VA-03-0094  | 20.500                             | 219,319                     |
| VA-03-0097  | 20.500                             | 737,147                     |
| VA-03-0102  | 20.500                             | 2,088,597                   |
| VA-05-0038  | 20.500                             | 79,609                      |
| VA-40-X003  | 20.500                             | 21,550                      |
| VA-90-X106  | 20.500                             | 56,893                      |
| VA-90-X184  | 20.500                             | 228,366                     |
| VA-90-X195  | 20.500                             | 32,168                      |
| VA-90-X207  | 20.500                             | 1,500,755                   |
| VA-90-X232  | 20.500                             | 1,813,869                   |
| VA-90-X240  | 20.500                             | 119,545                     |
| VA-90-X251  | 20.500                             | 230,030                     |
| VA-90-X269  | 20.500                             | 983,802                     |
| VA-90-X271  | 20.500                             | 2,150,992                   |
| VA-90-X284  | 20.500                             | 8,277,374                   |
| VA-90-X307  | 20.500                             | 1,263,550                   |
|   |                                    | <u>21,546,282</u>           |
| <b>Total expenses of Federal awards</b>   |                                    | <u><u>\$ 24,057,746</u></u> |

## POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

### NOTES TO SCHEDULE OF EXPENSES OF FEDERAL AWARDS

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#### Note 1. Summary of Significant Accounting Policies

##### A. Basis of Presentation and Accounting

The accompanying Schedule of Expenses of Federal Awards includes the federal grant activity of PRTC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

*Federal Financial Assistance* – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance.

*Direct Payments* – Assistance received directly from the Federal government is classified as direct payments on the “Schedule of Expenses of Federal Awards.”

*Major Programs* – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for PRTC were determined using a risk-based approach in accordance with OMB Circular A-133.

*Catalog of Federal Domestic Assistance* – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

#### Note 2. Pass-Through Payments to VRE

PRTC receives federal financial assistance on behalf of the Virginia Railway Express (VRE). VRE submits reimbursement requests to PRTC which then submits them to the granting agency. Upon receipt of the funds, they are passed on to VRE.

**INDEPENDENT AUDITORS' 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**

To the Honorable Commission Board Members  
Potomac and Rappahannock Transportation Commission  
Woodbridge, Virginia

We have audited the financial statements of the Potomac and Rappahannock Transportation Commission (the Commission), as of and for the year ended June 30, 2007, and have issued our report thereon dated November 16, 2007. We conducted our audit 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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commissions' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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 and specifications 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*.

This report is intended solely for the information and use of the Commissioners, management, the Auditor of Public Accounts, and other Federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
November 16, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Commission Board Members  
Potomac and Rappahannock Transportation Commission  
Woodbridge, Virginia

Compliance

We have audited the compliance of the Potomac and Rappahannock Transportation Commission (the Commission), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, that are applicable to its major Federal program for the year ended June 30, 2007. The Commission's major Federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, specifications, and circular 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 the Commission'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. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the Commission's internal control over compliance.

A *control deficiency* in the Commission's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Commissioners, management, the Auditor of Public Accounts and other Federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
November 16, 2007



SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2007

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I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

|  |           |   |
|--|-----------|---|
| Material weaknesses identified   | _____ Yes | <input checked="" type="checkbox"/> No            |
| Significant deficiency identified that is not considered to be material weaknesses | _____ Yes | <input checked="" type="checkbox"/> None Reported |
| Noncompliance material to financial statements noted                               | _____ Yes | <input checked="" type="checkbox"/> No            |

**Federal awards**

Internal control over major programs:

|  |           |   |
|--|-----------|---|
| Material weaknesses identified   | _____ Yes | <input checked="" type="checkbox"/> No            |
| Significant deficiency identified that is not considered to be material weaknesses | _____ Yes | <input checked="" type="checkbox"/> None Reported |

Type of auditors' report issued on compliance for major programs: Unqualified

|  |           |  |
|--|-----------|--|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | _____ Yes | <input checked="" type="checkbox"/> No |
|--|-----------|--|

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster                          |
|-------------|---|
| 20.500      | Department of Transportation Federal Transit Administration |

Dollar threshold used to distinguish between type A and type B programs: \$721,732

|  |   |          |
|--|---|----------|
| Auditee qualified as low-risk auditee? | <input checked="" type="checkbox"/> Yes | _____ No |
|--|---|----------|

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

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II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiency in Internal Control

None Reported

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2007**

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The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audits' Summary Schedule of Prior Audit Findings.