

**POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION**

FINANCIAL STATEMENTS

JUNE 30, 2013



ASSURANCE, TAX & ADVISORY SERVICES

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the Commission restated net position in order to comply with the adoption of GASB 65, items previously reported as assets.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information on pages 4-10 and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and Schedule of Expenditures of Federal Awards, as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014 on our consideration of the Commission's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
February 4, 2014

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, 2013. Please read it in conjunction with the accompanying financial statements which follow this section.

FINANCIAL HIGHLIGHTS

The basic financial statements report information about the PRTC reporting entity as a whole. The PRTC reporting entity is composed of two funds: Bus Service and Member Jurisdictions Fund and the Commuter Rail Service Fund.

As of June 30, 2013, PRTC's assets exceeded liabilities by \$269,145,403. Of this total, \$93,526,004 is for bus service and member jurisdictions and \$175,619,399 is for commuter rail service.

The net position of PRTC increased by \$3,768,093 for fiscal year 2013. This is the net effect of a \$8,268,815 increase from bus service and member jurisdictions and a \$4,500,722 decrease from commuter rail service.

As of June 30, 2013, PRTC's unrestricted net position is \$39,457,266. Of this total, \$16,244,540 is for bus service and member jurisdictions and \$23,212,726 is for commuter rail service.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to PRTC's basic financial statements. PRTC's basic financial statements are comprised of: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and notes to the financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information on revenues, expenses, and changes in PRTC's net position. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of PRTC's current year operation on its financial position.

The *Statement of Cash Flows* summarizes 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 Statement 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 basic financial statements. The notes to the financial statements can be found immediately following the financial statements.

The Bus Service and Member Jurisdictions Fund accounts for operation and maintenance costs for PRTC bus service as well as the 2.1% motor fuel tax activity for the PRTC member jurisdictions.

PRTC operates commuter 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.

PRTC member jurisdictions receive motor fuel tax revenue from a 2.1% sales tax 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. As of July 1, 2013, the administrative functions have been transferred to the Division of Motor Vehicles. 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 serving a particular jurisdiction.

The Commuter Rail Service Fund accounts for PRTC's portion of operation and maintenance costs of the Virginia Railway Express (VRE) commuter rail service. Assets owned by PRTC and the Northern Virginia Transportation Commission (NVTC) for the VRE operations have been funded by a variety of sources including federal assistance with PRTC as grantee, Commonwealth of Virginia assistance with NVTC as grantee, local contributions, and various loans and other financing arrangements for which one or both Commissions have served as issuer, borrower, or in other related capacities. For financial statement reporting purposes, assets, liabilities, and operations are assigned and allocated to NVTC and PRTC based on asset ownership, named entity on debt instruments, and sources of funding.

In order to present a full and accurate picture of VRE operations, all financial transactions related to the commuter rail program reported separately in the financial statements of PRTC and NVTC are combined in a separate set of financial statements. These audited financial statements can be obtained from the Director of Finance and Administration of PRTC at 14700 Potomac Mills Road, Woodbridge, VA 22192.

FINANCIAL ANALYSIS OF THE REPORTING ENTITY AS A WHOLE

Statement of Net Position

The following table presents a summary of the Statement of Net Position for the reporting entity as of June 30, 2013 and 2012:

Summary of Net Position As of June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 63,823,735	\$ 60,111,644	\$ 31,725,324	\$ 32,978,410	\$ 95,549,059	\$ 93,090,054
Capital assets, net	40,086,375	36,553,411	156,023,514	160,690,126	196,109,889	197,243,537
Total assets	103,910,110	96,665,055	187,748,838	193,668,536	291,658,948	290,333,591
Liabilities:						
Current liabilities	7,204,370	10,864,210	3,696,617	4,561,525	10,900,987	15,425,735
Noncurrent liabilities	3,179,736	543,656	8,432,822	8,986,890	11,612,558	9,530,546
Total liabilities	10,384,106	11,407,866	12,129,439	13,548,415	22,513,545	24,956,281
Net Position:						
Net investment in capital assets	37,356,246	33,980,653	147,189,101	151,314,245	184,545,347	185,294,898
Restricted	39,925,218	36,870,101	5,217,572	5,553,917	45,142,790	42,424,018
Unrestricted	16,244,540	14,406,435	23,212,726	23,251,959	39,457,266	37,658,394
Total net position	\$ 93,526,004	\$ 85,257,189	\$ 175,619,399	\$ 180,120,121	\$ 269,145,403	\$ 265,377,310

As noted earlier, net position may serve as a useful indicator of a government's financial position. As shown above, total assets exceeded liabilities by \$269,145,403, an increase of \$3,768,093 over the previous fiscal year. The largest portion of net position, \$184,545,347 or 68.6%, represents the investment in capital assets (e.g., buses, rail rolling stock, building, building improvements), less the related indebtedness outstanding used to acquire those capital assets. These assets are used to provide bus and rail service and consequently, are not available for future spending.

A portion of the net position, \$45,142,790 or 16.8%, represents resources that are restricted for member jurisdictions, commuter rail liability insurance plan, debt service and capital lease, and grants or contributions.

Current assets consist primarily of cash, cash equivalents, and investments; grant revenue due from the Federal Government and the Commonwealth of Virginia; and motor fuel tax revenue receivable collected on PRTC's behalf by the Commonwealth. Current assets increased approximately \$2.5 million or 2.6% from the prior year, primarily due to increased cash and investments offset by decreased grant receivables.

Capital assets, net of accumulated depreciation and amortization, decreased approximately \$1.1 million or 0.6%, primarily as the result of bus additions and overhauls less the sale of older buses and rail rolling stock.

Statement of Revenues, Expenses and Changes in Net Position

The following table shows the revenues and expenses and the change in net position of the reporting entity for the fiscal years ended June 30, 2013 and 2012:

Summary of Revenues, Expenses and Changes in Net Position Years Ended June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Operating revenues	\$ 42,283,064	\$ 42,137,974	\$ 21,105,264	\$ 21,341,015	\$ 63,388,328	\$ 63,478,989
Nonoperating revenues	28,229,086	25,748,992	11,599,338	10,757,719	39,828,424	36,506,711
Capital grants & assistance, net	13,131,856	15,673,156	(12,368,666)	(7,669,092)	763,190	8,004,064
Transfers, net	(19,773,020)	(26,236,143)	19,773,020	26,236,143	-	-
Total revenues	63,870,986	57,323,979	40,108,956	50,665,785	103,979,942	107,991,764
Expenses:						
Operating expenses	47,123,503	42,059,683	36,572,368	37,503,423	83,695,871	79,563,106
Depreciation and amortization	8,419,484	6,913,761	7,232,722	6,686,564	15,652,206	13,600,325
Nonoperating expenses	59,184	57,582	804,588	626,516	863,772	686,098
Total expenses	55,602,171	49,031,026	44,609,678	44,816,503	100,211,849	93,849,529
Change in net position	8,268,815	8,292,953	(4,500,722)	5,849,282	3,768,093	14,142,235
Net position, beginning, as restated	85,257,189	76,964,236	180,120,121	174,270,839	265,377,310	251,235,075
Net position, ending	\$ 93,526,004	\$ 85,257,189	\$ 175,619,399	\$ 180,120,121	\$ 269,145,403	\$ 265,377,310

For the fiscal year ended June 30, 2013, revenues totaled \$104 million, compared to \$108 million in the preceding year, a decrease of \$4.0 million or 3.7%. Expenses increased by \$6.4 million or 6.8%. A discussion of the key components of these changes follows.

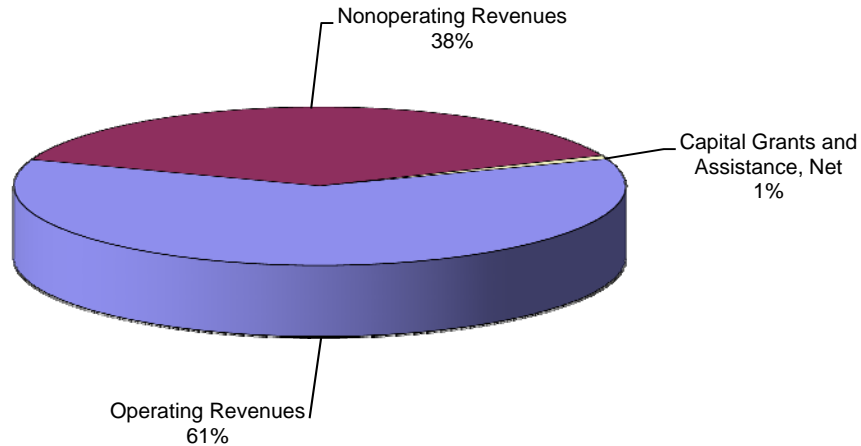
Operating revenues remained fairly consistent, decreasing \$0.09 million or 0.1% from the prior year. Bus and commuter rail service passenger revenues decreased approximately \$0.83 million as a result of decreased ridership while motor fuel tax revenue increased by \$0.78 million.

Nonoperating revenues increased by \$3.3 million or 9.1% from the prior year, primarily the result of federal and state nonoperating grant revenue, which increased by \$2.6 million.

Net capital grants and assistance decreased by \$7.2 million, which is attributable to the completion of the locomotive purchase project in the prior fiscal year as well as lower amounts of new VRE project construction. However, there were more capital grants in fiscal year 2013 for bus purchases as compared to fiscal year 2012. Since PRTC is the grantee for federal funds, \$12.5 million of the federal funding awarded for the commuter rail service was contributed to NVTC in the allocation process for fiscal year 2013 financial reporting purposes, compared with \$8.6 million for fiscal year 2012.

The following chart shows revenues by source for the fiscal year ended June 30, 2013.

FY13 Revenues



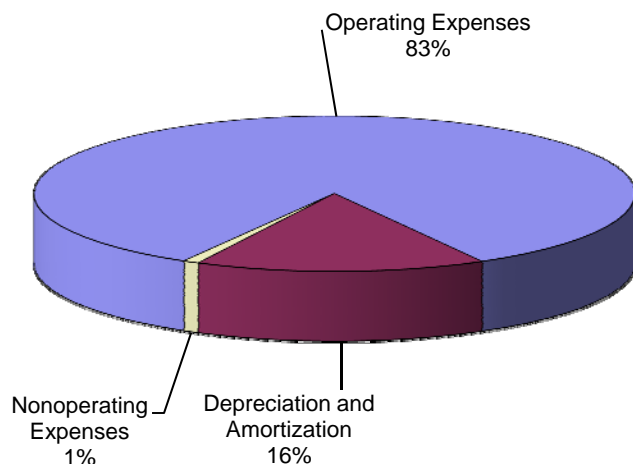
Operating expenses increased by \$4.1 million or 5.2%.

For the Bus Service and Member Jurisdictions Fund, operating expenses increased by \$5.1 million. Direct transportation expenses, which represent the use of jurisdictional motor fuel tax funds for the VRE subsidy as well as other jurisdictional transportation projects independent of PRTC, increased by \$3.1 million. Contractual services increased by \$1.0 million for two reasons -- the contractually specified escalation rate in PRTC's contract for bus services operations and maintenance and a small increase in revenue hours of service.

For the Commuter Rail Service Fund, operating expenses decreased by \$0.9 million or 2%. The reduction was primarily due to other operations and maintenance costs, which decreased by \$1.2 million due to reduced fuel and equipment maintenance costs.

The following chart shows expenses for the fiscal year ended June 30, 2013.

FY13Expenses



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2013 and 2012 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2013	2012	2013	2012	2013	2012
Buses and related equipment	\$ 68,684,567	\$ 62,223,803	\$ -	\$ -	\$ 68,684,567	\$ 62,223,803
Rail rolling stock	-	-	114,468,418	116,458,753	114,468,418	116,458,753
Land	1,847,335	-	-	-	1,847,335	-
Buildings	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Building improvements	3,791,600	3,589,845	-	-	3,791,600	3,589,845
Construction in process	2,824,767	3,203,531	5,062,564	6,424,938	7,887,331	9,628,469
Site improvements	1,435,093	1,435,093	-	-	1,435,093	1,435,093
Bus shelters	1,088,805	1,055,489	-	-	1,088,805	1,055,489
Vehicles	109,512	109,512	49,916	49,916	159,428	159,428
Furniture and equipment	526,928	461,424	-	-	526,928	461,424
Software and easement	865,367	835,380	-	-	865,367	835,380
Facilities	-	-	50,954,532	47,344,438	50,954,532	47,344,438
Track and signal improvements	-	-	26,342,183	26,342,183	26,342,183	26,342,183
Furniture, equipment and software	-	-	7,197,749	7,074,474	7,197,749	7,074,474
Equity in local properties	-	-	2,893,643	2,622,399	2,893,643	2,622,399
	89,226,315	80,966,418	206,969,005	206,317,101	296,195,320	287,283,519
Less accumulated depreciation and amortization	49,139,940	44,413,007	50,945,491	45,626,975	100,085,431	90,039,982
Total capital assets, net	\$ 40,086,375	\$ 36,553,411	\$ 156,023,514	\$ 160,690,126	\$ 196,109,889	\$ 197,243,537

PRTC's investment in capital assets as of June 30, 2013, amounts to \$196.1 million (net of accumulated depreciation and amortization), which represents a decrease of \$1.1 million or 0.6%.

For bus service and member jurisdictions, Prince William County conveyed land to PRTC across from the Transit Center during fiscal year 2013 on which PRTC had constructed a commuter lot (the land purchase was funded by PRTC but acquired on a "quick take" basis by Prince William County on behalf of PRTC). Also during fiscal year 2013, twelve new OmniRide and five new OmniLink buses were delivered, sixteen OmniRide buses were overhauled, and nine OmniRide buses were sold. The new buses and the overhaul-related costs combined amounted to approximately \$10 million. Building improvements of \$0.2 million during fiscal year 2013 included an emergency access exit to the bus storage yard.

For commuter rail service, completed projects totaling approximately \$3.95 million were closed from construction in progress to their respective capital accounts and an additional \$.045 million was charged directly to the capital accounts. Two older locomotives were sold during the year.

The major completed commuter rail projects were: the construction of additional parking at the Brooke and Leeland stations; the construction of a warehouse facility at the Crossroads yard; and the construction of a standby power supply at the Ivy City yard. The major additions to construction in progress during the fiscal year were for the construction of replacement railcars, canopy improvements at Washington Union Terminal, the construction of a new station in Spotsylvania County, and the construction of a third track between Hamilton and Crossroads in Spotsylvania County.

Debt Administration

During fiscal year 2013, PRTC participated in the Virginia Resources Authority (VRA) pooled financing program for a \$2,335,000 Series 2012 Revenue Bond. At June 30, 2013, the outstanding principal balance remains at \$2,335,000, with the first principal payment to occur during fiscal year 2014. The majority of the proceeds were used to retire the outstanding balance on two PRTC interim notes: \$2,016,138 tax-exempt and \$594,271 taxable. The notes were issued to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard at the PRTC Transit Center. The remaining proceeds funded certain local costs of issuance and financed the construction of an evacuation and emergency exit gate for the bus storage yard.

PRTC's portion of debt for the commuter rail service is \$8.8 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of PRTC's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Administration, Potomac and Rappahannock Transportation Commission, 14700 Potomac Mills Road, Woodbridge, VA 22192, or by email to jembrey@omniride.com.

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET POSITION

June 30, 2013

ASSETS	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	\$ 9,525,052	\$ 14,107,449	\$ 23,632,501
Receivables:			
Due from other governments	27,724,215	-	27,724,215
Trade receivables, net of allowance for doubtful accounts	-	944,626	944,626
Miscellaneous	261,198	89,886	351,084
Internal balances	(8,978,694)	8,978,694	-
Inventory	-	2,121,666	2,121,666
Prepaid expenses and other assets	223,436	265,431	488,867
Restricted assets:			
Cash and investments in pooled funds - member jurisdictions	34,320,231	-	34,320,231
Tax free money market	748,297	-	748,297
Cash, cash equivalents and investments	-	5,217,572	5,217,572
Total current assets	63,823,735	31,725,324	95,549,059
Capital assets:			
Transportation equipment:			
Buses and related equipment	68,684,567	-	68,684,567
Rail rolling stock	-	114,468,418	114,468,418
Less: accumulated depreciation	(41,764,987)	(21,642,543)	(63,407,530)
Transportation equipment, net	26,919,580	92,825,875	119,745,455
Land, buildings and equipment:			
Land	1,847,335	-	1,847,335
Buildings	8,052,341	-	8,052,341
Building improvements	3,791,600	-	3,791,600
Construction in progress	2,824,767	5,062,564	7,887,331
Site improvements	1,435,093	-	1,435,093
Bus shelters	1,088,805	-	1,088,805
Vehicles	109,512	49,916	159,428
Furniture and equipment	526,928	-	526,928
Software and easement	865,367	-	865,367
Facilities	-	50,954,532	50,954,532
Track and signal improvements	-	26,342,183	26,342,183
Furniture, equipment and software	-	7,197,749	7,197,749
Equity in local properties	-	2,893,643	2,893,643
Less: accumulated depreciation and amortization	(7,374,953)	(29,302,948)	(36,677,901)
Land, buildings and equipment, net	13,166,795	63,197,639	76,364,434
Total capital assets, net	40,086,375	156,023,514	196,109,889
Total noncurrent assets	40,086,375	156,023,514	196,109,889
Total assets	\$ 103,910,110	\$ 187,748,838	\$ 291,658,948

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	\$ 4,856,174	\$ 1,054,061	\$ 5,910,235
Accrued expenses	-	1,002,680	1,002,680
Accrued payroll and benefits	286,313	-	286,313
Accrued interest	25,017	67,583	92,600
Due to other governments	654,788	-	654,788
Deferred revenue	1,173,799	971,132	2,144,931
Capital lease - current	-	566,607	566,607
Compensated absences	13,279	19,905	33,184
Retainage payable	-	14,649	14,649
Bond payable - current	195,000	-	195,000
Total current liabilities	7,204,370	3,696,617	10,900,987
Noncurrent Liabilities			
Compensated absences	644,607	165,017	809,624
Capital lease	-	8,267,805	8,267,805
Bond payable, net	2,535,129	-	2,535,129
Total noncurrent liabilities	3,179,736	8,432,822	11,612,558
Total liabilities	10,384,106	12,129,439	22,513,545
Net Position			
Net investment in capital assets	37,356,246	147,189,101	184,545,347
Restricted	39,925,218	5,217,572	45,142,790
Unrestricted	16,244,540	23,212,726	39,457,266
Total net position	93,526,004	175,619,399	269,145,403
Total liabilities and net position	\$ 103,910,110	\$ 187,748,838	\$ 291,658,948

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2013

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax revenues	\$ 31,608,825	\$ -	\$ 31,608,825
Farebox and passenger revenues	10,525,172	20,960,802	31,485,974
Advertising revenue	149,067	-	149,067
Equipment rental and other	-	144,462	144,462
Total operating revenues	42,283,064	21,105,264	63,388,328
Operating Expenses			
Direct transportation	17,990,062	-	17,990,062
Salaries and related benefits	4,655,382	-	4,655,382
Contractual services	19,259,219	-	19,259,219
Other services	578,706	-	578,706
Materials, supplies and minor equipment	993,963	-	993,963
Fuel	3,646,171	-	3,646,171
Contract operations and maintenance	-	13,126,630	13,126,630
Other operations and maintenance	-	7,715,651	7,715,651
Property leases and access fees	-	8,149,434	8,149,434
Insurance	-	2,427,248	2,427,248
Marketing and sales	-	1,059,155	1,059,155
General and administrative	-	4,094,250	4,094,250
Total operating expenses	47,123,503	36,572,368	83,695,871
Operating loss before depreciation and amortization	(4,840,439)	(15,467,104)	(20,307,543)
Depreciation and amortization	(8,419,484)	(7,232,722)	(15,652,206)
Operating loss	(13,259,923)	(22,699,826)	(35,959,749)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	11,587,744	11,587,744
Commonwealth of Virginia grants	5,680,399	-	5,680,399
Federal grants	22,146,902	-	22,146,902
Investment income	45,643	11,594	57,237
Pass-through grants - member jurisdictions	(1,652)	-	(1,652)
Interest, amortization and other nonoperating expenses, net	(57,532)	(420,067)	(477,599)
Other revenue	195,411	-	195,411
Total nonoperating revenues, net	28,009,171	11,179,271	39,188,442
Capital grants and assistance			
Commonwealth of Virginia grants	2,360,624	-	2,360,624
Federal grants	10,763,763	-	10,763,763
Capital contributions	7,469	-	7,469
Contribution to NVTC	-	(12,511,338)	(12,511,338)
Other local contributions	-	142,672	142,672
Total capital grants and assistance, net	13,131,856	(12,368,666)	763,190
Income (loss) before transfers and gain (loss) on disposals	27,881,104	(23,889,221)	3,991,883
Transfers, net	(19,773,020)	19,773,020	-
Gain (loss) on disposal of assets	160,731	(384,521)	(223,790)
Change in net position	8,268,815	(4,500,722)	3,768,093
Net Position, beginning, as restated	85,257,189	180,120,121	265,377,310
Net Position, ending	\$ 93,526,004	\$ 175,619,399	\$ 269,145,403

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	\$ 30,674,944	\$ -	\$ 30,674,944
Receipts from customers	10,990,688	21,132,964	32,123,652
Receipts from advertising	149,067	-	149,067
Payments to suppliers	(23,841,050)	(34,220,189)	(58,061,239)
Payments to member jurisdictions	(18,002,676)	-	(18,002,676)
Payments to employees	(4,304,189)	(2,433,966)	(6,738,155)
Net cash used in operating activities	(4,333,216)	(15,521,191)	(19,854,407)
Cash Flows from Capital and Related Financing Activities			
Interest payments on interim notes	(32,515)	-	(32,515)
Principal payments on interim notes	(2,610,409)	-	(2,610,409)
Proceeds from draw on taxable note	37,651	-	37,651
Interest payments on capital leases	-	(424,210)	(424,210)
Principal payments on capital leases	-	(541,469)	(541,469)
Proceeds from sale of assets	164,438	120,000	284,438
Proceeds from issuance of revenue bond	2,709,673	-	2,709,673
Purchase of buses and related equipment	(11,987,181)	-	(11,987,181)
Acquisition of capital assets	(2,708,352)	(3,259,775)	(5,968,127)
Net cash used in capital and related financing activities	(14,426,695)	(4,105,454)	(18,532,149)
Cash Flows from Noncapital Financing Activities			
Federal and state grants bus and commuter rail services	48,031,258	-	48,031,258
Governmental subsidies	-	12,110,414	12,110,414
Interfund transfers	(29,948,689)	29,948,689	-
Payments for jurisdiction grant - related expenditures	(1,652)	(12,439,329)	(12,440,981)
Net cash provided by noncapital financing activities	18,080,917	29,619,774	47,700,691
Cash Flows From Investing Activities			
Investment income	45,643	11,674	57,317
Other revenues	101,189	-	101,189
Net cash provided by investing activities	146,832	11,674	158,506
Increase (decrease) in cash and cash equivalents	(532,162)	10,004,803	9,472,641
Cash and Cash Equivalents			
Beginning	44,377,445	9,320,218	53,697,663
Ending	\$ 43,845,283	\$ 19,325,021	\$ 63,170,304

(Continued)

See Notes to Financial Statements.

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (13,259,923)	\$ (22,699,826)	\$ (35,959,749)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	8,419,484	7,232,722	15,652,206
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	(991,258)	-	(991,258)
Miscellaneous receivables	(97,149)	632	(96,517)
Prepaid expenses and other assets	21,504	40,081	61,585
Trade receivables	-	(114,981)	(114,981)
Inventory	-	(60,259)	(60,259)
Increase (decrease) in:			
Accounts payable and other liabilities	615,505	(61,609)	553,896
Accrued payroll and benefits	351,193	-	351,193
Due to other governments	(12,614)	-	(12,614)
Deferred revenue	620,042	142,049	762,091
Net cash used in operating activities	\$ (4,333,216)	\$ (15,521,191)	\$ (19,854,407)
Schedule of Noncash Capital Activities:			
Capital assets acquired through capital contributions	\$ 7,469	\$ -	\$ 7,469
Capital assets acquired through accounts payable	509,792	282,147	791,939
Capital assets acquired via issuance of revenue bond	45,374	-	45,374
Capital assets acquired through accrued expenses	-	31,110	31,110

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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, Spotsylvania, 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 17 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 Jurisdictions
Prince William County	6	1
Stafford County	2	1
Spotsylvania 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 and Public Transportation	1	-
	<hr/> 17	<hr/> 8

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

Note 1. Organization (Continued)

Revenues of PRTC consist principally of a 2.1% motor fuel tax, farebox and passenger revenues, and federal and state grants. The fuel tax revenues represent a sales tax on retail sales of motor vehicle fuel 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 serving 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 2.1% 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 Northern Virginia Transportation Commission (NVTC) and PRTC reporting entities each include a portion of the financial activity of the joint venture Virginia Railway Express (VRE) commuter rail service. Pursuant to a Master Agreement signed in 1989, NVTC and PRTC jointly (as the "Commissions") own and operate VRE. Assets for VRE operations have been purchased in the name of the Commissions and funded primarily by grants, loans or other financing arrangements for which one or both Commissions have served as grantee, issuer, borrower, or in other related capacities. VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia and terminating at Union Station, Washington, D.C. The service uses existing tracks of the CSX Transportation Corporation ("CSX"), and the Norfolk Southern Railway Company, under respective operating access agreements. Trains are operated and maintained pursuant to an agreement between the Commissions and Keolis Rail Services Virginia, LLC, and Amtrak provides the Commissions with access to storage at Union Station and other services.

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 2.1% motor fuel tax revenues, one combined enterprise fund (Bus Service and Member Jurisdictions Fund) is used for financial statement presentation. The activities of PRTC are similar to those of proprietary funds of local jurisdictions.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

PRTC reports the following major enterprise funds:

Bus Service and Member Jurisdictions Fund: The Bus Service and Member Jurisdictions Fund accounts for operation and maintenance costs for PRTC bus service, financed by the 2.1% motor fuel tax, charges for services and operating and capital funding received from the Federal government and Commonwealth of Virginia. This fund also includes the 2.1% motor fuel tax activity for the PRTC member jurisdictions.

Commuter Rail Service Fund: The Commuter Rail Service Fund accounts for PRTC's portion of operation and maintenance costs for commuter rail service, financed by passenger charges and operating and capital funding received from the Federal government and Commonwealth of Virginia.

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. Eliminations have been made to minimize the double counting of internal activities.

Cash and investments in pooled funds, member jurisdictions: Cash and investments in pooled funds represent PRTC's share of the pooled cash and investments held by the Local Government Investment Pool ("LGIP") for the benefit of the member jurisdictions. 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.

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: Restricted assets represent funds designated for specific purposes. Restricted assets consist of funds invested in a Virginia Tax Free Institutional Fund in accordance with the applicable debt covenants. Funds totaling \$2,838,500 were initially received from the PRTC bus sponsoring jurisdictions for several capital related activities. Subsequently, those activities were debt financed, and the \$2,838,500 was reprogrammed for other operating and capital expenses. As of June 30, 2013, the balance in this tax free fund was \$748,297.

Restricted cash, cash equivalents and investments of \$5,217,572 at June 30, 2013 are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, proceeds from the sale of rolling stock, and a small liability claims account.

Allowance for uncollectible accounts: The allowance for uncollectible accounts is calculated by using historical collection data and specific account analysis. The allowance was \$104,400 at June 30, 2013.

Inventory: An inventory of spare parts for rail rolling stock has been purchased and is maintained and managed at the Commission's warehouse located at the Crossroads yard. Inventory is stated at cost, which approximates market, and is valued using the first-in, first-out method.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Prepaid expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements using the consumption method.

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 (Bus Service and Member Jurisdictions Fund) and \$5,000 (Commuter Rail Service Fund) with 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 and amortization of all exhaustible equipment and building is charged as an expense against operations using the straight-line method over the following estimated useful lives:

Buses and related equipment	3 - 15 years
Rail rolling stock	8 - 25 years
Buildings and improvements	5 - 30 years
Site improvements	5 - 20 years
Bus shelters	5 years
Vehicles	5 years
Facilities	30 - 40 years
Track and signal improvements	30 years
Furniture, equipment, and software	2 - 15 years
Equity in local properties	3 - 35 years

Compensated absences: Employees are granted annual and sick leave based on years of service. Employees with less than ten years of service may carry over a total of 225 hours of leave from year to year, while those with more than ten years may carry over 300 hours. Excess leave may convert to sick leave or may be paid out with the approval of the Executive Director or Commuter Rail Service Chief Executive Officer. In the event of termination, an employee is reimbursed in full for accumulated annual leave.

Employees may accumulate sick leave without limitation. Employees who separate in good standing after five or more years of service will be paid for 25 percent of their sick leave credit in excess of 450 hours. Certain employees may accumulate compensatory leave for overtime worked and is payable upon termination of employment.

Compensated absences are accrued when incurred. The liability for compensated absences is included in the accompanying financial statements as both a current and noncurrent liability.

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 Position when expended.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Operating revenues and expenses: Operating revenues are generated from activities related to providing public transportation services to users. Operating revenues include 2.1% motor fuel tax revenues, farebox and passenger revenues, and advertising revenues. 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 users. Operating expenses include direct transportation expenses and general and administrative expenses. Nonoperating expenses include interest expense.

Long-term obligations: Bond premiums are deferred and amortized over the life of the bond using the straight-line method.

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.

Note 3. Cash and Investments

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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).

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

The Commission has investments in the LGIP, Federated Government Obligations Fund (FG), and Federated Virginia Muni Cash Trust Fund (FV). The LGIP, FG, and FV 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, FG, and FV have been assigned an “AAAm” rating by Standard & Poor’s. The maturity of the LGIP, FG, and FV is less than one year.

The Commonwealth of Virginia Department of Treasury manages PRTC’s Insurance Trust. State statutes govern the portion of assets invested in the Commonwealth’s pooled accounts, while the remainder is invested by an external portfolio manager. At June 30, 2013, PRTC had \$5,120,976 invested in the Insurance Trust.

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, 2013, the carrying values and maturity of investments were as follows:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total	Fair Value	Maturities Less Than One Year
Money Market	\$ 9,737,000	\$ -	\$ 9,737,000	\$ 9,737,000	\$ 9,737,000
LGIP	-	12,575,367	12,575,367	12,575,367	12,575,367
	<u>9,737,000</u>	<u>12,575,367</u>	<u>22,312,367</u>	<u>22,312,367</u>	<u>22,312,367</u>
Restricted:					
Tax free money market	748,297	-	748,297	748,297	748,297
Insurance trust fund - pooled funds	-	5,120,976	5,120,976	5,120,976	5,120,976
LGIP	34,320,231	96,596	34,416,827	34,416,827	34,416,827
	<u>35,068,528</u>	<u>5,217,572</u>	<u>40,286,100</u>	<u>40,286,100</u>	<u>40,286,100</u>
Total	<u>\$ 44,805,528</u>	<u>\$ 17,792,939</u>	<u>\$ 62,598,467</u>	<u>\$ 62,598,467</u>	<u>\$ 62,598,467</u>

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

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. The Bus Service and Member Jurisdiction Fund 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)

The Commuter Rail Service Fund’s investment policy provides limitations on the percentage of the portfolio that can be invested in each type of security, as indicated in the following chart.

The limitations provided in the investment policy for maximum maturity and the percentage of the portfolio for each category of investment are as follows:

Investment	Length of Maturity	Percent Allowed
Bonds, notes, and other evidence of indebtedness of the United States	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of the Commonwealth of Virginia	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of any county, city, town, district, or authority	36 months or less	100%
Bonds and notes of FNMA and FHLB	36 months or less	75%
Savings accounts or CD’s of any bank or savings and loan association within the Commonwealth of Virginia	12 months or less	20%
Money market mutual funds	13 months or less	60%
Repurchase agreements	24 months or less	20%
Bankers’ acceptances	24 months or less	10%
Prime Quality Commercial Paper (no more than 5% from one issuer)	270 days or less	35%
High Quality Corporate Notes	24 months or less	50%
Certificates representing ownership in treasury bond principal	24 months or less	50%
LGIP	N/A	100%
Negotiable CD’s and negotiable bank deposit notes	24 months or less	25%

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

	Bus Service and Member Jurisdictions
Stafford County	\$ 7,699,042
Prince William County	13,961,166
City of Manassas	1,042,750
City of Manassas Park	3,146,768
City of Fredericksburg	4,965,550
Spotsylvania County	3,504,955
	<hr/> \$ 34,320,231 <hr/>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions
Virginia Department of Taxation - motor fuel tax receipts	\$ 6,256,035
Virginia Department of Rail and Public Transportation	2,156,758
Federal Transit Administration	17,723,545
Washington Metropolitan Area Transit Authority	754,408
Metropolitan Washington Council of Governments	623,242
Virginia Department of Transportation	183,720
Prince William County	26,297
City of Manassas	120
City of Manassas Park	90
	<hr/>
	\$ 27,724,215

Amounts due to other governments are as follows:

	Bus Service and Member Jurisdictions
City of Manassas	\$ 651,048
Virginia Department of Rail and Public Transportation	3,740
	<hr/>
	\$ 654,788

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2013 are as follows:

	Balance June 30, 2012	Increases	Reclassifications/ Decreases	Balance June 30, 2013
Capital assets not being depreciated or amortized:				
Land	\$ -	\$ 85,610	\$ 1,761,725	\$ 1,847,335
Construction in progress	9,628,469	4,086,001	(5,827,139)	7,887,331
Total capital assets not being depreciated or amortized	9,628,469	4,171,611	(4,065,414)	9,734,666
Capital assets being depreciated and amortized:				
Buses and related equipment	62,223,803	10,034,627	(3,573,863)	68,684,567
Rail rolling stock	116,458,753	-	(1,990,335)	114,468,418
Buildings	8,052,341	-	-	8,052,341
Building improvements	3,589,845	171,261	30,494	3,791,600
Site improvements	1,435,093	-	-	1,435,093
Bus shelters	1,055,489	6,817	26,499	1,088,805
Vehicles	159,428	-	-	159,428
Furniture and equipment	461,424	97,897	(32,393)	526,928
Software and easement	835,380	72,227	(42,240)	865,367
Facilities	47,344,438	-	3,610,094	50,954,532
Track and signal improvements	26,342,183	-	-	26,342,183
Furniture, equipment and software	7,074,474	30,694	92,581	7,197,749
Equity in local properties	2,622,399	13,260	257,984	2,893,643
Total capital assets being depreciated and amortized	277,655,050	10,426,783	(1,621,179)	286,460,654
Less accumulated depreciation and amortization for:				
Buses and related equipment	37,821,441	7,528,260	(3,584,714)	41,764,987
Rail rolling stock	19,099,671	4,457,077	(1,914,205)	21,642,543
Buildings	3,890,412	268,512	-	4,158,924
Building improvements	886,006	240,160	(18,196)	1,107,970
Site improvements	199,298	79,666	-	278,964
Bus shelters	668,122	157,498	-	825,620
Vehicles	118,895	19,675	-	138,570
Furniture and equipment	373,834	29,331	(34,360)	368,805
Software and easement	488,064	102,525	(55,282)	535,307
Facilities	11,769,893	1,400,064	-	13,169,957
Track and signal improvements	8,033,398	895,851	-	8,929,249
Furniture, equipment and software	5,292,347	393,650	-	5,685,997
Equity in local properties	1,398,601	79,937	-	1,478,538
Total accumulated depreciation and amortization	90,039,982	15,652,206	(5,606,757)	100,085,431
Total capital assets being depreciated and amortized, net	187,615,068	(5,225,423)	3,985,578	186,375,223
Totals	\$ 197,243,537	\$ (1,053,812)	\$ (79,836)	\$ 196,109,889

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Liabilities

Revenue Bond

In December 2012, PRTC issued the Series 2012 Revenue Bond. Proceeds from the issuance were used to fund certain local costs of issuance, finance the construction of an evacuation and emergency exit gate at the bus storage yard, and repay two interim notes. PRTC obtained two interim notes during July 2010 (refinancing of notes issued in July 2007) for \$4,200,000 to finance land acquisition, design, construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard. The outstanding balance was \$2,016,138 for the tax-exempt note and \$556,620 for the taxable note at June 30, 2012. During fiscal year 2013, additional draws of \$37,651 were made on the taxable note prior to repayment. Revenue bond proceeds of \$2,610,409 were used to repay the tax-exempt note of \$2,016,138 and the taxable note of \$594,271.

\$2,335,000, Series 2012 Revenue Bond, due in annual installments of \$195,000 to \$285,000 through October 2022, plus interest at 2.82% to 4.83% \$ 2,335,000

Mandatory debt service requirements consist of the following:

Year Ending June 30,	Principal	Interest	Total Required
2014	\$ 195,000	\$ 97,322	\$ 292,322
2015	200,000	91,751	291,751
2016	205,000	85,297	290,297
2017	215,000	76,809	291,809
2018	225,000	66,884	291,884
2019-2023	1,295,000	202,827	1,497,827
	<u>\$ 2,335,000</u>	<u>\$ 620,890</u>	<u>\$ 2,955,890</u>

Capitalized Lease - Gallery IV (11 cars)

	Total	PRTC Reporting Entity
\$25,100,000 capitalized lease obligation (PRTC reporting entity, \$12,550,000); \$965,679 due semi-annually (PRTC reporting entity, \$482,840), interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$20,806,067 (PRTC reporting entity, \$10,403,034)	<u>\$ 17,668,825</u>	<u>\$ 8,834,412</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Liabilities (Continued)

Future minimum lease payments as of June 30, 2013 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2014	\$ 1,931,357	\$ 965,679
2015	1,931,357	965,679
2016	1,931,357	965,678
2017	1,931,357	965,678
2018	1,931,357	965,678
2019-2023	9,656,785	4,828,392
2024-2025	3,862,714	1,931,357
Total minimum lease payments	23,176,284	11,588,141
Lease amount representing interest	5,507,459	2,753,729
Present value of lease payments	\$ 17,668,825	\$ 8,834,412

The following is a summary of long-term liability activity for the year ended June 30, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Tax-exempt note	\$ 2,016,138	\$ -	\$ (2,016,138)	\$ -	\$ -
Taxable note	556,620	37,651	(594,271)	-	-
Revenue bond	-	2,335,000	-	2,335,000	195,000
Unamortized premium	-	420,047	(24,918)	395,129	-
Capital leases	9,375,881	-	(541,469)	8,834,412	566,607
	\$ 11,948,639	\$ 2,792,698	\$ (3,176,796)	\$ 11,564,541	\$ 761,607

Note 7. Net Position

Restricted net position represents net assets that are subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net position as of June 30, 2013:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash and investments	\$ 34,320,231	\$ -	\$ 34,320,231
Due from other governments, net	5,604,987	-	5,604,987
Cash and investments - insurance trust fund	-	5,120,976	5,120,976
Cash and investments - grants and contributions	-	96,596	96,596
	\$ 39,925,218	\$ 5,217,572	\$ 45,142,790

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Position (Continued)

Unrestricted net position consists of the following as of June 30, 2013:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support next year budget	\$ 2,200,000	\$ -	\$ 2,200,000
Local match for state grants	2,169,533	-	2,169,533
Local funding for projects (non grant related)	10,278	-	10,278
Total designations	4,379,811	-	4,379,811
Undesignated unrestricted net position	11,864,729	23,212,725	35,077,454
Total unrestricted net position	\$ 16,244,540	\$ 23,212,725	\$ 39,457,265

Note 8. Joint Venture - Virginia Railway Express

The NVTC reporting entity and the PRTC reporting entity contain their respective shares of the financial activity of the VRE joint venture. In order to present a full and accurate picture of VRE operations, all financial transactions related to the commuter rail program are combined in a separate set of financial statements. These audited financial statements can be obtained from the Director of Finance and Administration of PRTC at 14700 Potomac Mills Road, Woodbridge, VA 22192.

Assets owned by the Commissions for the VRE operations have been funded by a variety of sources including federal assistance with PRTC as grantee, Commonwealth of Virginia assistance with NVTC-VRE as grantee, local contributions, and various loans and other financing arrangements for which one or both Commissions have served as issuer, borrower, or in other related capacities.

The federal grant agreements control the use and disposal of property acquired with federal grant funds. If property is removed from service prior to the end of its useful life, the grant recipient may be required to return to the grantor agency the federal assistance expended on that property. In addition, permission of the grantor agency is required if property is disposed of prior to the end of its useful life or at any time for an amount in excess of \$5,000.

The Master Agreement for the use of Commonwealth of Virginia Transportation Funds control the use and disposal of property acquired with state grant funds. If any project equipment are not used for the purpose for which they were purchased for the duration of their useful lives, the Commonwealth has the option of requiring the grantee to relinquish title to the project equipment or remit an amount equal to the proportional share of the fair market value based upon the ratio of participation by the state. For facilities, the Commonwealth requires an amount equal to the proportional share of fair market value based upon the ratio of participation by the state be remitted.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Joint Venture – Virginia Railway Express

Pursuant to a Master Agreement signed in 1989, NVTC and PRTC jointly (as the "Commissions") own and operate VRE. VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia and terminating at Union Station, Washington, D.C. The service uses existing track of the CSX Transportation Corporation ("CSX"), and the Norfolk Southern Railway Company, under respective operating access agreements. Trains are operated and maintained pursuant to an agreement between the Commissions and Keolis Rail Services Virginia, LLC, and Amtrak provides the Commissions with access to storage at Union Station and other services.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, a lease financing, Federal and Commonwealth of Virginia grants, and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania, and Stafford; and the cities of Manassas, Manassas Park, and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. The VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction, effective February 15, 2010. Spotsylvania County's share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2012 was deferred until 60 days after the beginning of fiscal year 2013, at which time Spotsylvania paid the deferral.

In July 2007, the Commissions 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 former 90% system ridership and 10% population formula. The amendment to the subsidy formula was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Joint Venture – Virginia Railway Express (Continued)

Financial information from VRE's fiscal year 2013 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS STATEMENT OF NET POSITION June 30, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 23,376,754
Accounts receivable:	
Due from PRTC – funded by FTA	9,838,627
Commonwealth of Virginia grants	3,748,152
Trade and other, net of allowance	1,907,735
Inventory	3,515,707
Prepaid expenses and other	439,833
Restricted cash, cash equivalents, and investments	16,998,472
Total current assets	<u>59,825,280</u>

Noncurrent Assets

Capital assets (net of \$101,890,983 accumulated depreciation and amortization)	312,047,031
Total noncurrent assets	<u>312,047,031</u>
Total assets	<u>\$ 371,872,311</u>

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable and accrued liabilities	\$ 5,069,214
Unearned revenue	1,609,214
Contract retainage	29,299
Current portion of:	
Capital lease obligations	1,133,214
Bonds payable	6,220,000
Notes payable	1,897,186
Total current liabilities	<u>15,958,127</u>

Noncurrent Liabilities

Capital lease obligations	16,535,611
Notes payable	59,698,580
Bonds payable, net	6,555,000
Compensated absences	273,442
Total noncurrent liabilities	<u>83,062,633</u>
Total liabilities	<u>99,020,760</u>

Net Position

Net investment in capital assets	\$ 220,007,440
Restricted for liability insurance plan	10,294,874
Restricted for debt service and capital lease	6,563,328
Restricted grants or contributions	140,270
Unrestricted assets	35,845,639
Total net position	<u>272,851,551</u>

Total liabilities and net position	<u>\$ 371,872,311</u>
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POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Joint Venture – Virginia Railway Express (Continued)

**VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2013**

Operating revenues	\$	34,972,487
Operating expenses		60,719,529
Operating loss before depreciation and amortization		(25,747,042)
Depreciation and amortization		(14,465,444)
Operating loss		(40,212,486)
Nonoperating revenues (expenses):		
Subsidies:		
Commonwealth of Virginia grants		14,967,197
Federal grants – with PRTC as grantee		18,559,490
Jurisdictional contributions		16,428,800
Interest income:		
Operating funds		18,573
Other restricted funds		772
Loss on disposal of assets		(769,042)
Interest, amortization and other nonoperating expenses, net		(4,683,094)
Total nonoperating revenues, net		44,522,696
Capital grants and assistance:		
Commonwealth of Virginia grants		974,115
Federal grants – with PRTC as grantee		1,269,732
Other local contributions		328,031
Total capital grants and assistance		2,571,878
Change in net position		6,882,088
Net Position, beginning, as restated		265,969,463
Net Position, ending	\$	272,851,551

Note 9. 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, federal and state grants, 2.1% motor fuel tax, and other jurisdictional payments.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Direct Transportation Expenses

In addition to PRTC administrative costs, the member jurisdictions authorize disbursements from their respective 2.1% motor fuel tax revenues for transportation projects operating or originating within their jurisdiction. During the year ended June 30, 2013, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	\$ 10,943,654
Other jurisdictional projects	6,402,318
Spotsylvania County deferred subsidy payment	2,424,708
Spotsylvania County deferred subsidy contribution	<u>(1,780,618)</u>
	<u>\$ 17,990,062</u>

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

Note 11. Risk Management and Liability Insurance Plan

PRTC and the VRE commuter rail operation 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. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to \$250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately \$226,000 at June 30, 2013, of which \$113,000 was included in the PRTC reporting entity. PRTC is indemnified from risk related to its bus/bus facility issues by virtue of its contract with First Transit, the third party bus services provider.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 11. Risk Management and Liability Insurance Plan (Continued)

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2011, all plan assets have been invested in the Department of Treasury common pool. Prior to that time, approximately one-half of plan assets were invested in the common pool, and the remainder was invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the year ended June 30, 2013 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1	\$ 10,156,492	\$ 5,078,246
Contribution to reserves	4,100,000	2,050,000
Insurance premiums paid	(3,924,984)	(1,962,492)
Claims mitigation costs and losses incurred	(4,916)	(2,458)
Actuarial and administrative charges	(60,241)	(30,120)
Transfer to VRE for small liability claims	(24,400)	(12,200)
Ending balance, June 30	<u>\$ 10,241,951</u>	<u>\$ 5,120,976</u>

An actuarial study is performed annually to determine the adequacy of the Insurance Trust Fund for the risk retained and to determine the required contribution to reserves.

Note 12. Related Party Transactions

For the year ended June 30, 2013, expenses incurred for legal services provided by Prince William County were \$39,000.

Note 13. 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 year ended June 30, 2013 were \$20,175.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2013 were \$42,584.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 14. 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)

All full-time, salaried permanent employees of PRTC are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for PRTC employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 percent. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5 percent; under Plan 2, the COLA cannot exceed 6 percent. During years of no inflation or deflation, the COLA is 0.00 percent. 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.

The System issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/pdf/publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 14. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. 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. PRTC's contribution rate for the fiscal year ended June 30, 2013 was 8.04 percent of annual covered payroll and 1.19 percent for group life insurance.

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2013, 2012, and 2011 was as follows:

	2013	2012	2011
Bus Service and Member Jurisdictions	\$ 3,105,402	\$ 2,740,101	\$ 2,677,361
Commuter Rail Service	3,359,519	3,151,446	3,060,302

Total payroll for the years ended June 30, 2013, 2012, and 2011 was as follows:

	2013	2012	2011
Bus Service and Member Jurisdictions	\$ 3,507,845	\$ 3,064,189	\$ 2,965,639
Commuter Rail Service	3,911,919	3,358,745	3,142,184

C. Annual Pension Cost

For fiscal year 2013, PRTC's annual pension cost of \$519,780 was equal to the required and actual contributions.

Three-Year Trend Information for PRTC

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 626,553	100.0%	\$ -
June 30, 2012	643,357	100.0%	-
June 30, 2013	519,780	100.0%	-

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 14. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

The fiscal year 2013, required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.0 percent, (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50 percent per year for Plan 1 employees and 2.25 percent for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the PRTC's assets is equal to the modified market value of assets (VRE's assets are not separated from PRTC's). 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 projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

As of June 30, 2012, the most recent actuarial valuation date, the plan was 83.30 percent funded. The actuarial accrued liability for benefits was \$10,544,864 and the actuarial value of assets was \$8,783,862, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,761,002. The covered payroll (annual payroll of active employees of the plan) was \$6,045,347 and the ratio of the UAAL to the covered payroll was 29.13 percent. The only other postemployment benefits offered by PRTC are COBRA payments, which have been determined to be immaterial to the financial statements.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 15. Contingencies and Contractual Commitments

Fuel Contractual Commitments

PRTC entered into contracts at various times in December 2012 through May 2013 to purchase fuel at set prices for delivery in July 2013 through June 2014. The total commitment is for 798,000 gallons of fuel at approximately \$2.4 million. The fuel will be used in the normal course of business and is not being purchased for resale.

Federal and State-Assisted Programs

The Commission has received proceeds from several federal and state grant programs. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. Based upon past experience, no provision has been made in the accompanying financial statements for the refund of grant monies.

A combination of federal and state grants and local funds are relied upon to finance a majority of PRTC contractual services and capital projects.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 15. Contingencies and Contractual Commitments (Continued)

At June 30, 2013, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal (with PRTC as grantee) and Commonwealth of Virginia grants (with NVTC-VRE as grantee) and local funds will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenditures incurred as of June 30, 2013:

Stations and parking lots	\$ 1,697,350
Rail rolling stock	22,371,958
Maintenance and layover yards	805,166
Track and signal improvements	879,555
Other administrative	73,069
Total	\$ 25,827,098

Note 16. Operating Leases

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the year ended June 30, 2013, annual track usage fees totaled approximately \$7,991,000, of which \$4,794,600 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately \$465,000, of which \$279,000 is recognized by the PRTC reporting entity.

The new agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on June 28, 2010. Actual cost for the year ended June 30, 2013 was approximately \$9,209,000, of which \$5,525,400 was recognized by the PRTC reporting entity. Costs in future years will be adjusted based on changes to various published costs indices and the number of trains that have access to and are stored and serviced at the terminal.

During fiscal year 2011, the Commissions entered into a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. The actual cost of train operations and maintenance for the year ended June 30, 2013, based on an annual budget prepared in advance, was approximately \$17,945,000 of which \$10,767,000 is recognized by the PRTC reporting entity. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 17. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	\$ -	\$ 19,843,677	\$ 19,843,677
Commuter Rail Service	(70,657)	-	(70,657)
Total transferred in	\$ (70,657)	\$ 19,843,677	\$ 19,773,020

The transfer from the Commuter Rail Service Fund to the Bus Service and Member Jurisdictions Fund is for general administrative services related to grant activity performed by staff of the Bus Service and Member Jurisdictions Fund.

The transfer from the Bus Service and Member Jurisdictions Fund to the Commuter Rail Service Fund is for federal grant activity in which PRTC serves as grantee on behalf of VRE.

Note 18. Pending GASB Statements

At June 30, 2013, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the PRTC reporting entity. The statements which might impact PRTC are as follows:

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, will improve financial reporting by state and local government pension plans. Statement No. 67 will be effective for fiscal years beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government /combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

PRTC has not yet determined the effect of these statements on its financial statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 19. Subsequent Events

PRTC entered into contracts during October and November 2013 to purchase fuel at set prices for delivery in March 2014 through September 2014. The total commitment is for 294,000 gallons of fuel at approximately \$843,000. The fuel will be used in the normal course of business and is not being purchased for resale.

VRE entered into contracts at various times from February 2013 through September 2013 to purchase fuel at set prices for delivery in July 2013 through June 2014. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 714,000 gallons of fuel at a cost of approximately \$2.3 million.

In July 2013, VRE entered into contracts for the construction of a third track and a new station in Spotsylvania County amounting to \$8.1 million and \$2.3 million, respectively. In September 2013, the Operations Board authorized the Chief Executive Officer to execute an agreement with CSX Transportation for flagging and signal system and related construction for the Spotsylvania third track project in an amount not to exceed \$20.5 million.

In July 2013, the Commission approved the acquisition of 15.18 acres of land totaling approximately \$4.8 million located in western Prince William County to be used for a second bus maintenance facility.

In October 2013, the Commissions authorized the Chief Executive Officer of VRE to execute a sole source contract for positive train control equipment and installation services in an amount not to exceed \$7.4 million, following the recommendation of the Operations Board in September 2013.

Note 20. Restatement of Beginning Net Position

The following table shows the change to the beginning net position for the Commuter Rail Service fund from the amounts previously reported:

Balance at June 30, 2012	\$ 180,197,797
Deferred bond and lease costs written off to comply with GASB Statement No. 65	<u>(77,676)</u>
Balance at June 30, 2012, as restated	<u>\$ 180,120,121</u>

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF FUNDING PROGRESS - VRS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2012	\$ 8,783,862	\$ 10,544,864	\$ 1,761,002	83.30%	\$ 6,045,347	29.13%
June 30, 2011	8,237,980	9,730,413	1,492,433	84.66%	5,751,116	25.95%
June 30, 2010	7,503,689	8,539,776	1,036,087	87.87%	5,733,383	18.07%

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - BUS SERVICE AND MEMBER JURISDICTIONS
June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and investments in bank	\$ 9,525,052	\$ 12,320,883
Receivables:		
Due from other governments	27,724,215	33,786,020
Due from Commuter Rail Service Fund	874,502	576,416
Miscellaneous	261,198	164,049
Prepaid expenses and other assets	223,436	244,940
Restricted assets:		
Cash and investments in pooled funds - member jurisdictions	34,320,231	32,056,562
Tax free money market	748,297	920,982
Total current assets	73,676,931	80,069,852
Capital assets:		
Transportation equipment:		
Buses and related equipment	68,684,567	62,223,803
Less: accumulated depreciation	(41,764,987)	(37,821,441)
Transportation equipment, net	26,919,580	24,402,362
Land, buildings, and equipment:		
Land	1,847,335	-
Buildings	8,052,341	8,052,341
Building improvements	3,791,600	3,589,845
Construction in progress	2,824,767	3,203,531
Site improvements	1,435,093	1,435,093
Bus shelters	1,088,805	1,055,489
Vehicles	109,512	109,512
Furniture and equipment	526,928	461,424
Software and easement	865,367	835,380
Less: accumulated depreciation and amortization	(7,374,953)	(6,591,566)
Land, buildings and equipment, net	13,166,795	12,151,049
Total capital assets, net	40,086,375	36,553,411
Total noncurrent assets	40,086,375	36,553,411
Total assets	\$ 113,763,306	\$ 116,623,263

LIABILITIES AND NET POSITION	2013	2012
Current Liabilities		
Accounts payable and other liabilities	\$ 4,856,174	\$ 6,710,577
Accrued payroll and benefits	286,313	337,914
Accrued interest	25,017	-
Due to other governments	654,788	663,662
Due to Commuter Rail Service Fund	9,853,196	19,958,208
Deferred revenue	1,173,799	560,424
Compensated absences	13,279	9,522
Retainage payable	-	9,353
Bond payable - current portion	195,000	-
Liabilities payable from restricted assets:		
Interim notes payable	-	2,572,758
Total current liabilities	17,057,566	30,822,418
Noncurrent Liabilities		
Compensated absences	644,607	543,656
Bond payable, net	2,535,129	-
Total noncurrent liabilities	3,179,736	543,656
Total liabilities	20,237,302	31,366,074
Net Position		
Net investment in capital assets	37,356,246	33,980,653
Restricted	39,925,218	36,870,101
Unrestricted	16,244,540	14,406,435
Total net position	93,526,004	85,257,189
Total liabilities and net position	\$ 113,763,306	\$ 116,623,263

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUS SERVICE AND MEMBER JURISDICTIONS
Years Ended June 30, 2013 and 2012**

	2013	2012
Operating Revenues		
Motor fuel tax revenues	\$ 31,608,825	\$ 30,825,415
Farebox revenues	10,525,172	11,162,304
Advertising revenue	149,067	150,255
Total operating revenues	42,283,064	42,137,974
Operating Expenses		
Direct transportation	17,990,062	14,925,778
Salaries and related benefits	4,655,382	4,132,614
Contractual services	19,259,219	18,286,151
Other services	578,706	521,465
Materials, supplies and minor equipment	993,963	707,199
Fuel	3,646,171	3,486,476
Total operating expenses	47,123,503	42,059,683
Operating income (loss) before depreciation and amortization	(4,840,439)	78,291
Depreciation and amortization	(8,419,484)	(6,913,761)
Operating loss	(13,259,923)	(6,835,470)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	5,680,399	4,662,625
Federal grants	22,146,902	20,676,682
Investment income	45,643	39,760
Pass-through grants - member jurisdictions	(1,652)	(1,597)
Reimbursement from member jurisdiction	-	363,456
Interest expense	(57,532)	(40,235)
Other revenue	195,411	161,516
Total nonoperating revenues, net	28,009,171	25,862,207
Capital grants and assistance		
Commonwealth of Virginia grants	2,360,624	792,522
Federal grants	10,763,763	14,673,789
Capital contributions	7,469	51,798
Total capital grants and assistance	13,131,856	15,518,109
Income before transfers and gain (loss) on disposals	27,881,104	34,544,846
Transfers in	70,657	45,356
Transfers out	(19,843,677)	(26,281,499)
Transfers, net	(19,773,020)	(26,236,143)
Gain (loss) on disposal of assets	160,731	(15,750)
Change in net position	8,268,815	8,292,953
Net Position, beginning	85,257,189	76,964,236
Net Position, ending	\$ 93,526,004	\$ 85,257,189

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - COMMUTER RAIL SERVICE

June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and investments in bank	\$ 14,107,449	\$ 3,746,822
Receivables:		
Due from other governments	-	495,484
Due from Bus Service and Member Jurisdictions Fund	9,853,196	19,958,208
Trade receivables, net of allowance for doubtful accounts	944,626	837,636
Miscellaneous	89,886	31,531
Inventory	2,121,666	2,603,295
Prepaid expenses and other assets	265,431	308,454
Restricted cash, cash equivalents and investments	5,217,572	5,573,396
Total current assets	32,599,826	33,554,826
Capital assets:		
Transportation equipment:		
Rail rolling stock	114,468,418	116,458,753
Less: accumulated depreciation	(21,642,543)	(19,099,671)
Transportation equipment, net	92,825,875	97,359,082
Buildings and equipment:		
Construction in progress	5,062,564	6,424,938
Vehicles	49,916	49,916
Furniture, equipment and software	7,197,749	7,074,474
Equity in local properties	2,893,643	2,622,399
Facilities	50,954,532	47,344,438
Track and signal improvements	26,342,183	26,342,183
Less: accumulated depreciation and amortization	(29,302,948)	(26,527,304)
Buildings and equipment, net	63,197,639	63,331,044
Total capital assets, net	156,023,514	160,690,126
Total noncurrent assets	156,023,514	160,690,126
Total assets	\$ 188,623,340	\$ 194,244,952

LIABILITIES AND NET POSITION	2013	2012
Current Liabilities		
Accounts payable and other liabilities	\$ 1,054,061	\$ 1,525,727
Accrued expenses	1,002,680	1,475,618
Due to Bus Service and Member Jurisdictions Fund	874,502	576,416
Deferred revenue	971,132	846,357
Capital lease	566,607	541,469
Interest payable - capital lease	67,583	71,725
Retainage payable	14,649	82,406
Compensated absences	19,905	18,223
Total current liabilities	4,571,119	5,137,941
Noncurrent Liabilities		
Compensated absences	165,017	152,478
Capital lease	8,267,805	8,834,412
Total noncurrent liabilities	8,432,822	8,986,890
Total liabilities	13,003,941	14,124,831
Net Position		
Net investment in capital assets	147,189,101	151,314,245
Restricted for liability insurance plan	5,147,437	5,078,246
Restricted grants and contributions	70,135	475,671
Unrestricted	23,212,726	23,251,959
Total net position	175,619,399	180,120,121
Total liabilities and net position	\$ 188,623,340	\$ 194,244,952

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
COMMUTER RAIL SERVICE
Years Ended June 30, 2013 and 2012**

	2013	2012
Operating Revenues		
Passenger revenues	\$ 20,960,802	\$ 21,155,677
Equipment rental and other	144,462	185,338
Total operating revenues	21,105,264	21,341,015
Operating Expenses		
Contract operations and maintenance	13,126,630	12,852,220
Other operations and maintenance	7,715,651	8,892,548
Property leases and access fees	8,149,434	7,995,996
Insurance	2,427,248	2,127,425
Marketing and sales	1,059,155	1,347,366
General and administrative	4,094,250	4,287,868
Total operating expenses	36,572,368	37,503,423
Operating loss before depreciation and amortization	(15,467,104)	(16,162,408)
Depreciation and amortization	(7,232,722)	(6,686,564)
Operating loss	(22,699,826)	(22,848,972)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	11,587,744	10,746,895
Investment income	11,594	10,824
Interest, amortization and other nonoperating expenses, net	(420,067)	(447,325)
Total nonoperating revenues, net	11,179,271	10,310,394
Capital grants and assistance		
Federal grants - NVTC and other	-	896,692
Contribution to NVTC	(12,511,338)	(8,578,961)
Other local contributions	142,672	13,177
Total capital grants and assistance, net	(12,368,666)	(7,669,092)
Loss before transfers and loss on disposals	(23,889,221)	(20,207,670)
Transfers out	(70,657)	(45,356)
Transfers in	19,843,677	26,281,499
Transfers, net	19,773,020	26,236,143
Loss on disposal of assets	(384,521)	(179,191)
Change in net position	(4,500,722)	5,849,282
Net Position, beginning, as restated	180,120,121	174,270,839
Net Position, ending	\$ 175,619,399	\$ 180,120,121

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS FUNDS

Year Ended June 30, 2013

	City of Fredericksburg	City of Manassas	City of Manassas Park	County of Prince William	County of Stafford	County of Spotsylvania	Total
Funds Available - July 1, 2012	\$ 5,139,267	\$ 1,582,875	\$ 2,970,833	\$ 15,085,360	\$ 6,819,488	\$ 5,272,278	\$ 36,870,101
Funds Received							
Motor fuel tax	1,789,266	892,189	962,784	17,061,648	5,616,151	5,286,787	31,608,825
Transfer from PRTC (carryforward)	2,549	10,538	7,543	1,965,132	6,822	7,416	2,000,000
Spotsylvania deferred subsidy repayment	89,552	141,943	89,358	985,598	474,167	-	1,780,618
Other	-	156,506	-	-	-	-	156,506
Interest	7,220	1,578	4,511	16,546	10,162	4,417	44,434
Total funds received	1,888,587	1,202,754	1,064,196	20,028,924	6,107,302	5,298,620	35,590,383
Funds Disbursed							
Direct transportation expenses:							
VRE capital support	421,616	777,205	526,460	5,687,222	2,347,707	1,183,444	10,943,654
Other projects	1,189,289	1,223,787	-	-	1,809,335	2,179,907	6,402,318
Transfers to PRTC:							
Administrative expenses	26,600	30,000	15,600	222,686	82,000	53,300	430,186
OmniRide, OmniLink, Capital Improvement, Marketing	-	336,900	235,700	11,761,800	-	-	12,334,400
Spotsylvania deferred subsidy repayment	-	-	-	-	-	2,424,708	2,424,708
Total funds disbursed	1,637,505	2,367,892	777,760	17,671,708	4,239,042	5,841,359	32,535,266
Funds Available - June 30, 2013	\$ 5,390,349	\$ 417,737	\$ 3,257,269	\$ 17,442,576	\$ 8,687,748	\$ 4,729,539	\$ 39,925,218

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, 2013. Total funds available reconcile to amounts reported on the Statement of Net Position as follows:

Cash and investments in pooled funds - member jurisdictions	\$ 34,320,231
Due from other governments - Motor fuel tax revenue receipts (see Note 4)	6,256,035
Due to other governments - member jurisdictions	(651,048)
	<u>\$ 39,925,218</u>

Note 2 - Expenses for other jurisdictional projects consist of:

Road improvements/maintenance, sidewalks	\$ 410,900	\$ 886,265	\$ -	\$ -	\$ 1,071,777	\$ -	\$ 2,368,942
Station and other rail maintenance	49,748	-	-	-	-	-	49,748
Street signs, human services transportation, airport, bike trails, bus shelters, professional services	-	52,895	-	-	346,580	-	399,475
Parking garage debt service, parking leases	319,820	284,627	-	-	-	-	604,447
FRED transit costs	408,821	-	-	-	390,978	214,829	1,014,628
Transportation salaries/benefits; debt service	-	-	-	-	-	1,965,078	1,965,078
	<u>\$ 1,189,289</u>	<u>\$ 1,223,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,809,335</u>	<u>\$ 2,179,907</u>	<u>\$ 6,402,318</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2013

State Granting Agency	State Grant Number	Expenses
<u>Direct Payments:</u>		
Virginia Department of Rail and Public Transportation:		
Formula assistance	72013-34	\$ 4,848,156
Ridesharing assistance	71013-11; 72513-13	180,000
Transportation Intern	71212-02; 71213-03	20,089
TEIF Youth Outreach	71412-03	26,678
TMP Bus Services	72509-61; 72513-19; 72513-33	278,159
SmarTrip Expansion Program	73501-52	14,456
Vanpool Program	72513-01	122,548
Capital - FY 06	73006-22	2,908
Capital - FY 07	73007-26	38,943
Capital - FY 09	72509-36; 73009-65; 73109-48	50,605
Capital - FY 10	73010-73; 73010-77; 73010-78	74,226
Capital - FY 11	73011-80	24,052
Capital - FY 11	73011-81	(1)
Capital - FY 11	73011-82	193
Capital - FY 11	73011-83	2,628
Capital - FY 11	73011-88	8,942
Capital - FY 11	73011-89	287,796
Capital - FY 11	73011-91	1,762
Capital - FY 11	73011-92	21,204
Capital - FY 12	72512-06	200,000
Capital - FY 12	73012-86	156,541
Capital - FY 12	73012-87	29,307
Capital - FY 12	73012-89	2,055
Capital - FY 12	73012-90	15
Capital - FY 12	73012-91	29,067
Capital - FY 12	73012-92	30,484
Capital - FY 12	73012-94	749
Capital - FY 12	73012-96	1,313
Capital - FY 12	73012-98	52,667
Capital - FY 12	73012-95	6,736
Capital - FY 13	72513-14	385,930
Capital - FY 13	73013-54	340
Capital - FY 13	73013-55	1,120
Capital - FY 13	73113-48	767,344
Capital - FY 13	73113-50	84,372
Capital - FY 13	73113-51	53,862
Capital - FY 13	73113-53	1,637
Capital - FY 13	73113-54	30,603
Capital - FY 13	73113-55	123,848
Capital - FY 13	73113-56	21,980
Capital - FY 13	73113-59	9,173
Capital - FY 13	73113-86	23,775
Vendor Refund, VDRPT Grant TBD		(3,740)
		<u>8,012,522</u>
<u>Passthrough Payments:</u>		
Prince William County:		
Travel Training		15,254
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)		11,505
TMP Marketing		1,663
		<u>13,168</u>
Total State Awards Expended		<u>\$ 8,040,944</u>

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

<u>Federal Granting Agency / Grant Program / Grant Number</u>	<u>Federal CFDA Number</u>	<u>Expenses</u>
DEPARTMENT OF TRANSPORTATION:		
<u>Direct Payments:</u>		
Federal Transit Administration:		
VA-04-0043	20.500	\$ 71,861
VA-05-0044	20.500	1,506,468
VA-05-0048	20.500	1,072,007
VA-90-X353	20.507	23,025
VA-90-X401	20.507	3,213,763
VA-95-X046	20.507	673,557
VA-95-X109	20.507	2,343,720
VA-96-X009 ARRA	20.507	55,930
VA-04-0015	20.500	17,760
VA-05-0038	20.500	136,219
VA-05-0041	20.500	34,446
VA-05-0042	20.500	280,591
VA-05-0046	20.500	1,255,338
VA-05-0048	20.500	1,283,266
VA-90-X232	20.507	57,825
VA-90-X307	20.507	70,540
VA-90-X329	20.507	238,892
VA-90-X352	20.507	124,507
VA-90-X368	20.507	1,001,409
VA-90-X401	20.507	3,150,091
VA-95-X017	20.507	1,356,723
VA-95-X046	20.507	709,183
VA-95-X059	20.507	9,727,615
TBD	20.507	23,198
		<u>28,427,934</u>
<u>Passthrough Payments:</u>		
Prince William County:		
Travel Training	20.521	<u>64,227</u>
Metropolitan Washington Council of Governments:		
TIGER	20.932	<u>4,003,897</u>
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)	20.205	46,020
TMP Marketing	20.205	6,652
		<u>52,672</u>
Virginia Department of Transportation	20.205	<u>142,573</u>
DC Homeland Security and Emergency Management Agency:		
Department of Homeland Security (FY09)	97.075	<u>203,799</u>
Total Federal Awards Expended		<u><u>\$ 32,895,102</u></u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures 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 Expenditures of Federal Awards.”

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the “Schedule of Expenditures 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.

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs. The following are the clusters administered by PRTC: Federal Transit – Capital Investment Grants and Federal Transit – Formula Grants (including ARRA Funds).



**INDEPENDENT AUDITOR'S 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, in accordance with the 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; the financial statements of the business-type activities of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 4, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan, we identified several deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as items 2013-01 through 2013-02 to be material weaknesses and item 2013-03 to be a significant deficiency.

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
February 4, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Potomac and Rappahannock Transportation Commission's (Commission) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2013. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs and Corrective Action Plan.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
February 4, 2014

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2013**

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	<u> √ </u> Yes	<u> </u> No
Significant deficiency identified	<u> √ </u> Yes	<u> </u> No
Noncompliance material to financial statements noted	<u> </u> Yes	<u> √ </u> No

Federal awards

Internal control over major programs:

Material weaknesses identified	<u> </u> Yes	<u> √ </u> No
Significant deficiencies identified	<u> </u> Yes	<u> √ </u> No

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> </u> Yes	<u> √ </u> No
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.932	Department of Transportation – Surface Transportation - TIGER Grants

Federal Transit Cluster:

20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants (including ARRA Funds)

Dollar threshold used to distinguish between type A and type B programs: \$986,853

Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> √ </u> No
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**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2013**

II. FINANCIAL STATEMENT FINDINGS

**2013-01: Material Weakness Related to Administrative Rights
to Accounting System (MUNIS)**

Requirement: Individuals should only have access rights to the accounting system that correlate with each individual's job responsibilities.

Condition: Upon documenting our understanding of MUNIS, it was noted that administrative rights to the accounting system are shared by the Information Technology department, the Director of Finance and Administration, and the Deputy Director of Finance and Administration.

Effect: With individuals having administrative rights to the accounting system, they have the potential to manipulate financial data and override controls currently in place.

Recommendation: While our audit procedures did not indicate any instances of override or abuse by management, we recommend the administrative rights assigned to these individuals be fully evaluated, and be limited to only those access rights to the system that align with their job descriptions and responsibilities.

Corrective Action Taken or Planned: Management agrees that individuals should only have access rights to the accounting system that are necessary for the individual to attend to his or her job responsibilities. While implementation efforts are still in process, however, the Director of Finance and Administration and the Deputy Director of Finance and Administration continue to have access rights to the system that are necessary to accomplish implementation-related efforts. It is important to also note that, although administrative rights are shared, the rights currently held by both the Director and Deputy Director of Finance and Administration are more limited than the rights held by information technology staff.

A final step in completing the implementation will include a complete analysis of rights for all individuals with MUNIS access, particularly those with administrative rights. Access rights for each job function will be adjusted accordingly and fully documented. Management anticipates that this documentation and transition process will take place in conjunction with the completion of an updated accounting policies and procedures manual. The updated accounting manual is currently in draft format with a projected completion date not later than the end of fiscal year 2014.

**2013-02: Material Weakness Related to Filing of Grant Reimbursement Requests
and Recording of Grant Revenue**

Requirement: Reimbursement requests associated with expenditures eligible for State and Federal funding should be submitted for reimbursement on a timely basis and at least quarterly. Revenues associated with eligible expenditures should also be recorded in the general ledger on a timely basis.

Condition: During the course of our audit, the Commission failed to prepare and submit reimbursement requests to the Department of Rail and Public Transportation and the Federal Transit Administration for eligible expenditures on a timely basis. Revenue associated with State and Federal funding was not recorded in the general ledger timely.

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2013**

II. FINANCIAL STATEMENT FINDINGS (Continued)

**2013-02: Material Weakness Related to Filing of Grant Reimbursement Requests
and Recording of Grant Revenue (Continued)**

Effect: There are several potential effects related to the timely filing of grant reimbursement requests. The potential exists for the loss of State and Federal funding due to untimely filing of reimbursement requests. The potential also exists for not recording revenue related to grant funding in the proper period in which the eligible expenses have occurred. Due to not filing reimbursement requests timely, the Commission could face cash constraints related to operations and may have to use funds reserved for other activities to fund operations.

Recommendation: We recommend the Commission adhere to its policy of timely submission to ensure that grant reimbursement requests are filed timely now that the general revenue module is fully operational.

Corrective Action Taken or Planned: Management agrees that timely grant reimbursement requests and the recording of revenues associated with grant funding is imperative. The implementation of the MUNIS General Billing module was finalized after the end of fiscal year 2013, modifying the original recording process established during go-live.

Reimbursement requests for expenditures through December 2013 are in process and will be submitted before the end of February 2014. Management anticipates resumption of complete and timely grant reimbursements on a monthly cycle beginning with the Commission's January 2014 eligible grant expenditures, with accruals completed in February and grant reimbursements processed during the first week of March 2014.

2013-03: Significant Deficiency in Internal Control over Reconciliation of Cash Account

Requirement: Cash accounts should be reconciled in a timely manner, typically within 30 days of receiving the monthly bank statement.

Condition: In updating our understanding of procedures pertaining to internal controls related to cash, it was noted that the month of June 2013 bank reconciliation was not finalized and completely reconciled to the general ledger until December 2013. It was noted, however, that management had identified all items/transactions impacting the Commission's cash account, allowing management to monitor the cash available to the Commission for use in operations.

Effect: The potential effect of not reconciling cash in a timely manner is that items may not be properly recorded or reflected in the correct period. The Commission is also exposed to the risk of potential errors or fraud related to financial reporting.

Recommendation: We recommend the Commission adhere to its policy to ensure all cash accounts maintained are reconciled in a timely manner now that the new accounting system has been implemented and operating effectively.

**SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2013**

II. FINANCIAL STATEMENT FINDINGS (Continued)

**2013-03: Significant Deficiency in Internal Control over Reconciliation of Cash Account
(Continued)**

Corrective Action Taken or Planned: Management agrees that timely reconciliation of cash accounts is imperative. The fiscal year 2014 bank reconciliations through December 2013 are currently in process and will be finalized by February 28, 2014. Management anticipates resumption of complete and timely cash reconciliations, with January and February 2014 bank reconciliations completed by no later than March 31, 2014.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

Identifying Number: 12-01

Finding:

There is a material weakness in internal control over reconciliation of cash account.

Corrective Action Taken or Planned:

Management agrees that cash accounts should be reconciled in a timely manner. Although the Commission went “live” with the new accounting system on October 3, 2011, additional financial modules were not implemented until late fiscal year 2012 and early fiscal year 2013 which directly impacted the timely recording of certain cash transactions. Procedures are now resuming to ensure the timely processing of financial data, and the reconciliation of fiscal year 2013 bank statements through November 30, 2012 are currently in process. Management anticipates resumption of complete and timely cash reconciliations by February 28, 2013.

Identifying Number: 12-02

Finding:

There is a material weakness related to administrative rights to the accounting system (MUNIS)

Corrective Action Taken or Planned:

Management agrees that individuals should only have access rights to the accounting system that correlate with each individual’s job responsibilities.

The Director of Finance and the Accounting and Budget Manager, functioning as accounting system implementation project managers, have access rights to the system that align with the responsibilities associated with this project assignment. Throughout implementation, administrative rights have been shared with (and continue to be shared with) the Information Technology department, limiting the administrative responsibilities of project management. A final step in completing the implementation will include a complete analysis of rights for *all* individuals with MUNIS access, particularly those with administrative rights. Access rights for each job function will be adjusted accordingly, and fully documented. Management anticipates that this documentation and transition process will take place in conjunction with the development of a more comprehensive accounting policies and procedures manual, which will be developed by the end of fiscal year 2013.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

Identifying Number: 12-03

Finding:

There is a material weakness related to filing of grant reimbursement request and recording of grant revenue.

Corrective Action Taken or Planned:

Corrective Action Taken or Planned: Management agrees that reimbursement requests for State and Federal funding should be submitted on a timely basis. The revenue module has been implemented and reimbursement requests for fiscal year 2012 expenditures have been submitted for all active grants. Policies and procedures are being developed for the new accounting system to ensure the timely reconciliation and processing of grant reimbursements. Reimbursement requests for expenditures through November 30, 2012 are in process and will be submitted by January 31, 2013. Management anticipates resumption of complete and timely grant reimbursements on monthly cycle beginning with the Commission’s December 2012 eligible grant expenditures. An anticipated monthly cycle is illustrated below:

January 2013	February 2013	March 2013
Expenditures Incurred during the calendar month	All January expenditures recorded (with a January effective date) by February 15 th .	All reimbursement requests for January expenditures submitted to State and Federal agencies by March 8 th .
	All grant revenues associated with January eligible expenditures recorded (with a January effective date) by February 22 nd .	

Identifying Number: 12-04

Finding:

There is a material weakness in the timely preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Corrective Action Taken or Planned:

Management agrees that the preparation of a timely and accurate Schedule of Expenditures of Federal Awards (SEFA) is imperative.

As noted previously, although the Commission went “live” with the new accounting system on October 3, 2011, additional financial modules were not implemented until late fiscal year 2012 and early fiscal year 2013 which directly impacted the timely recording of grant activity.

The policies and procedures that are being developed for the new accounting system to ensure the timely reconciliation and processing of grant reimbursements will ensure that all information reportable in the SEFA are accurate and readily available. These policies and procedures will include a formal documentation of a SEFA on a quarterly basis, commencing with the 3rd quarter of fiscal year 2013.