POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2015

PBMares[SM]

ASSURANCE, TAX & ADVISORY SERVICES

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

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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 and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2015, 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 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 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, 2015, 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

Change in Accounting Principle

As discussed in Note 17 to the financial statements, the Commission restated beginning net position to record the net pension liability and related components in accordance with the implementation of GASB Statements No. 68.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 4-10 and 49-50, 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,* as amended by the audit requirements for Federal Awards Guidance at 2 CFR 200, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and Schedule of Expenditures of Federal Awards are 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 November 18, 2015 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
November 18, 2015

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, 2015. 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, 2015, PRTC's assets exceeded liabilities by $281,243,657. Of this total, $93,738,296 is for bus service and member jurisdictions and $187,505,361 is for commuter rail service.

The net position of PRTC increased by $5,777,342 for fiscal year 2015. This is the net effect of a $6,872,888 decrease from bus service and member jurisdictions and a $12,650,230 increase from commuter rail service.

As of June 30, 2015, PRTC's unrestricted net position is $49,074,138. Of this total, $22,710,021 is for bus service and member jurisdictions and $26,364,117 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 S*tatement of Net Position* presents information on all of PRTC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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 S*tatement 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 S*tatement 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 Motor Vehicles. The Department of Motor Vehicles 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.

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, Virginia 22192.

FINANCIAL ANALYSIS OF THE PRTC REPORTING ENTITY AS A WHOLE

Statement of Net Position

The following table presents a summary of the Statement of Net Position for the PRTC reporting entity as of June 30, 2015 and 2014:

Summary of Net Position
As of June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2015	2014	2015	2014	2015	2014
Assets and deferred outflows of resources:						
Current assets	$ 59,647,397	$ 65,463,615	$ 38,005,892	$ 36,622,017	$ 97,653,289	$ 102,085,632
Capital assets, net	43,567,246	46,271,193	163,604,536	151,429,292	207,171,782	197,700,485
Pension asset, net	236,729	-	267,880	-	504,609	-
Deferred outflows of resources	215,975	-	244,793	-	460,768	-
Total assets and deferred outflows of resources	103,667,347	111,734,808	202,123,101	188,051,309	305,790,448	299,786,117
Liabilities and deferred inflows of resources:						
Current liabilities	7,046,929	8,053,056	6,937,053	5,315,982	13,983,982	13,369,038
Noncurrent liabilities	2,527,212	3,017,483	7,279,072	7,820,104	9,806,284	10,837,587
Deferred inflows of resources	354,910	-	401,615	-	756,525	-
Total liabilities and deferred inflows of resources	9,929,051	11,070,539	14,617,740	13,136,086	45,085,685	24,546,791
Net Position:						
Net investment in capital assets	41,317,550	43,778,781	155,897,478	143,161,487	197,215,028	186,940,268
Restricted	29,710,725	37,712,144	5,243,766	5,227,086	34,954,491	42,939,230
Unrestricted	22,710,021	19,173,344	26,364,117	26,526,650	49,074,138	45,699,994
Total net position	$ 93,738,296	$ 100,664,269	$ 187,505,361	$ 174,915,223	$ 281,243,657	$ 275,579,492

As noted earlier, net position may serve as a useful indicator of a government's financial position. As shown above, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $281.2 million, an increase of $5.7 million over the previous fiscal year. The largest portion of net position, $197.2 million or 70.1%, represents the investment in capital assets (e.g., buses, rail rolling stock, building, building improvements and accumulated depreciation and amortization), 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, $35.0 million or 12.4%, represents resources restricted for member jurisdictions, commuter rail liability insurance plan, and debt service and capital lease.

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 decreased approximately $4.4 million or 4.3% from the prior year, primarily due to decreased cash and investments and decreased grant receivables.

Capital assets, net of accumulated depreciation and amortization, increased approximately $9.5 million or 4.8% primarily as the result of new rail rolling stock, new rail project construction, the western maintenance facility and computer aided dispatch/automated vehicle location (CAD/AVL) projects.

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 PRTC reporting entity for the fiscal years ended June 30, 2015 and 2014:

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

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Revenues:						
Operating revenues	$ 35,724,899	$ 46,784,803	$ 20,789,732	$ 19,682,978	$ 56,514,631	$ 66,467,781
Nonoperating revenues	23,837,580	27,100,526	11,287,620	11,366,877	35,125,200	38,467,403
Capital grants & assistance, net	21,224,928	19,994,982	(6,107,656)	(8,816,741)	15,117,272	11,178,241
Transfers, net	(31,387,614)	(21,285,233)	31,387,614	21,285,233	-	-
Total revenues	49,399,793	72,595,078	57,357,310	43,518,347	106,757,103	116,113,425
Expenses:						
Operating expenses	50,002,118	56,365,951	36,610,679	34,644,164	86,612,797	91,010,115
Depreciation and amortization	6,221,920	8,797,924	7,695,597	7,353,229	13,917,517	16,151,153
Nonoperating expenses	48,643	292,938	400,804	2,225,130	449,447	2,518,068
Total expenses	56,272,681	65,456,813	44,707,080	44,222,523	100,979,761	109,679,336
Change in net position	(6,872,888)	7,138,265	12,650,230	(704,176)	5,777,342	6,434,089
Net position, beginning, as restated	100,611,184	93,526,004	174,855,131	175,619,399	275,466,315	269,145,403
Net position, ending	$ 93,738,296	$ 100,664,269	$ 187,505,361	$ 174,915,223	$ 281,243,657	$ 275,579,492

The earliest year presented has not been restated for implementation of GASB Statements No. 68 and 71 due to the lack of available information.

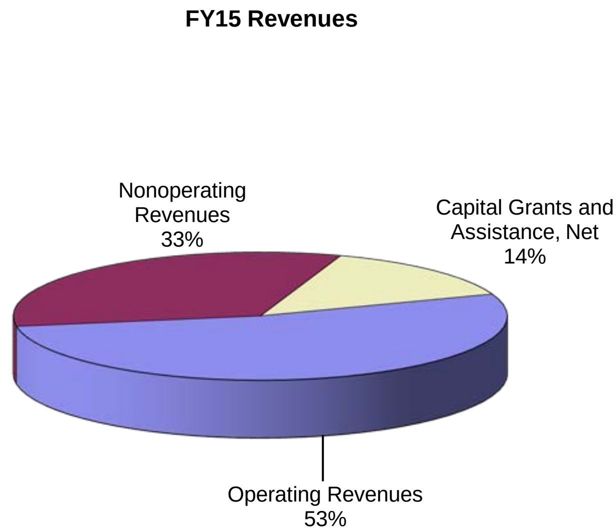
For the fiscal year ended June 30, 2015, revenues totaled $106.8 million, compared to $116.1 million in the preceding year, a decrease of $9.4 million or 8.1%. Expenses decreased by $8.7 million or 7.8%. A discussion of the key components of these changes follows.

Operating revenues decreased $10.0 million or 15.0% from the prior year, primarily the result of a decrease in motor fuel tax revenue. Motor fuel tax revenue decreased approximately $10.1 million or 28.9%.

Nonoperating revenues decreased by $3.3 million or 8.7% from the prior year, primarily the result of federal nonoperating grant revenue, which decreased by $3.3 million.

Net capital grants and assistance increased by $3.9 million, which is attributable to less bus service related capital grants and more rail service related capital grants for fiscal year 2015 compared to fiscal year 2014. Since PRTC is the grantee for federal funds, $7.2 million of the federal funding awarded for the commuter rail service was contributed to NVTC in the allocation process for fiscal year 2015 financial reporting purposes, compared with $10.2 million for fiscal year 2014.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2015.

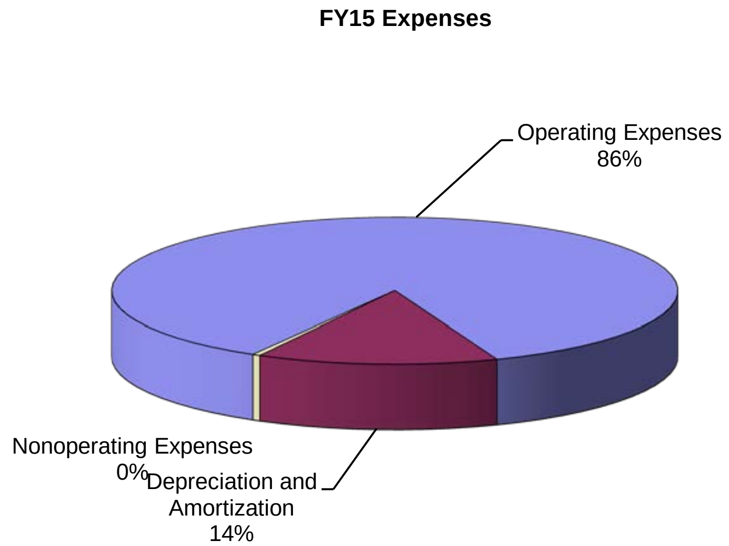


Operating expenses decreased by $4.4 million or 4.8%.

For the Bus Service and Member Jurisdictions Fund, operating expenses decreased by $6.4 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, decreased by $6.8 million. Contractual services increased by $1.1 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 increased by $2.0 million or 5.7%. While total operating expenses of the commuter rail service increased between years, PRTC's share of the reporting entity also increased from 53% to 56%, with a corresponding decrease for NVTC. The shift is primarily the result of how commuter rail access fees are reimbursed, with additional funds received from the Federal Government and less from the Commonwealth of Virginia. (NVTC as the state grant recipient is assigned the state funded commuter rail access fees and PRTC as federal grant recipient is assigned the federally funded commuter rail access fees).

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2015.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2015 and 2014 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Buses and related equipment	$ 75,017,151	$ 74,631,834	$ -	$ -	$ 75,017,151	$ 74,631,834
Rail rolling stock	-	-	124,647,981	114,468,418	124,647,981	114,468,418
Land	6,639,270	6,639,270	-	-	6,639,270	6,639,270
Buildings	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Building improvements	3,932,663	3,832,287	-	-	3,932,663	3,832,287
Construction in process	6,931,165	4,195,259	14,520,293	6,819,428	21,451,458	11,014,687
Site improvements	1,435,093	1,435,093	-	-	1,435,093	1,435,093
Bus shelters	1,408,307	1,149,013	-	-	1,408,307	1,149,013
Vehicles	149,332	149,332	53,600	39,332	202,932	188,664
Furniture and equipment	522,912	552,488	-	-	522,912	552,488
Software and easement	934,712	934,712	-	-	934,712	934,712
Facilities	-	-	51,224,980	51,224,980	51,224,980	51,224,980
Track and signal improvements	-	-	26,342,183	26,342,183	26,342,183	26,342,183
Furniture, equipment and software	-	-	8,720,136	7,928,695	8,720,136	7,928,695
Equity in local properties	-	-	2,893,643	2,893,643	2,893,643	2,893,643
	105,022,946	101,571,629	228,402,816	209,716,679	333,425,762	311,288,308
Less accumulated depreciation and amortization	61,455,700	55,300,436	64,798,280	58,287,387	126,253,980	113,587,823
Total capital assets, net	$ 43,567,246	$ 46,271,193	$ 163,604,536	$ 151,429,292	$ 207,171,782	$ 197,700,485

PRTC's investment in capital assets as of June 30, 2015, amounted to $207.2 million (net of accumulated depreciation and amortization), which represents an increase of $9.5 million or 4.8%.

For bus service and member jurisdictions, during fiscal year 2015, PRTC continued engineering and design work for the western maintenance facility at a cost of $1.7 million and the CAD/AVL project at a cost of $1.1 million. In addition, two OmniRide buses were overhauled during fiscal year 2015 at an amount of $0.4 million.

For commuter rail service, completed projects totaling approximately $12 million were closed from construction in progress to their respective capital accounts and an additional $.13 million was charged directly to the capital accounts.

The major completed commuter rail projects consisted of the purchase of eight Gallery rail cars ($11.2 million), and the implementation of phase one of the mobile ticketing system ($0.7 million). The major additions to construction in progress during the fiscal year were for the construction of a third track between Hamilton and Crossroads in Spotsylvania County ($6.4 million); the construction of the Spotsylvania VRE station ($1.1 million); and the construction of a pedestrian tunnel at the Alexandria VRE station ($0.4 million).

Debt Administration

At June 30, 2015, PRTC had an outstanding principal balance of $1,940,000 for its Series 2012 Revenue Bond with the Virginia Resources Authority.

PRTC's portion of debt for the commuter rail service is $7.7 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, Virginia 22192, or by email to jembrey@omniride.com.

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET POSITION
June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	$ 18,501,992	$ 18,086,015	$ 36,588,007
Receivables:			
Due from other governments	24,583,492	-	24,583,492
Trade receivables, net of allowance for doubtful accounts	-	954,976	954,976
Miscellaneous	69,962	736,413	806,375
Internal balances	(10,731,708)	10,731,708	-
Inventory	-	2,184,160	2,184,160
Prepaid expenses and other assets	40,595	68,854	109,449
Restricted assets:			
Cash and investments in pooled funds - member jurisdictions	27,183,064	-	27,183,064
Cash, cash equivalents and investments	-	5,243,766	5,243,766
Total current assets	59,647,397	38,005,892	97,653,289
Noncurrent assets			
Net pension asset	236,729	267,880	504,609
Capital assets:			
Transportation equipment:			
Buses and related equipment	75,017,151	-	75,017,151
Rail rolling stock	-	124,647,981	124,647,981
Less: accumulated depreciation	(52,481,484)	(29,711,792)	(82,193,276)
Transportation equipment, net	22,535,667	94,936,189	117,471,856
Land, buildings and equipment:			
Land	6,639,270	-	6,639,270
Buildings	8,052,341	-	8,052,341
Building improvements	3,932,663	-	3,932,663
Construction in progress	6,931,165	14,520,293	21,451,458
Site improvements	1,435,093	-	1,435,093
Bus shelters	1,408,307	-	1,408,307
Vehicles	149,332	53,600	202,932
Furniture and equipment	522,912	-	522,912
Software and easement	934,712	-	934,712
Facilities	-	51,224,980	51,224,980
Track and signal improvements	-	26,342,183	26,342,183
Furniture, equipment and software	-	8,720,136	8,720,136
Equity in local properties	-	2,893,643	2,893,643
Less: accumulated depreciation and amortization	(8,974,216)	(35,086,488)	(44,060,704)
Land, buildings and equipment, net	21,031,579	68,668,347	89,699,926
Total capital assets, net	43,567,246	163,604,536	207,171,782
Total noncurrent assets	43,803,975	163,872,416	207,676,391
Deferred Outflows of Resources			
Pension plan	215,975	244,793	460,768
Total deferred outflows of resources	215,975	244,793	460,768
Total assets and deferred outflows of resources	$ 103,667,347	$ 202,123,101	$ 305,790,448

See Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	$ 3,904,993	$ 1,992,547	$ 5,897,540
Accrued expenses	-	2,636,323	2,636,323
Accrued payroll and benefits	439,819	-	439,819
Accrued interest	22,231	58,713	80,944
Due to other governments	990,589	-	990,589
Unearned revenue	1,108,112	868,440	1,976,552
Capital lease - current	-	627,581	627,581
Compensated absences	376,185	17,012	393,197
Retainage payable	-	736,437	736,437
Bond payable - current	205,000	-	205,000
Total current liabilities	7,046,929	6,937,053	13,983,982
Noncurrent Liabilities			
Compensated absences	482,516	199,595	682,111
Capital lease	-	7,079,477	7,079,477
Bond payable, net	2,044,696	-	2,044,696
Total noncurrent liabilities	2,527,212	7,279,072	9,806,284
Total liabilities	9,574,141	14,216,125	23,790,266
Deferred Inflows of Resources			
Pension plan	354,910	401,615	756,525
Total deferred inflows of resources	354,910	401,615	756,525
Net Position			
Net investment in capital assets	41,317,550	155,897,478	197,215,028
Restricted	29,710,725	5,243,766	34,954,491
Unrestricted	22,710,021	26,364,117	49,074,138
Total net position	93,738,296	187,505,361	281,243,657
Total liabilities, deferred inflows of resources and net position	$ 103,667,347	$ 202,123,101	$ 305,790,448

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2015

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax	$ 24,832,142	$ -	$ 24,832,142
Farebox and passenger	10,701,496	20,555,297	31,256,793
Advertising	191,261	-	191,261
Equipment rental and other	-	234,435	234,435
Total operating revenues	35,724,899	20,789,732	56,514,631
Operating Expenses			
Direct transportation	17,477,799	-	17,477,799
Salaries and related benefits	4,822,572	-	4,822,572
Contractual services	22,671,944	-	22,671,944
Other services	1,465,127	-	1,465,127
Materials, supplies and minor equipment	309,944	-	309,944
Fuel	3,254,732	-	3,254,732
Contract operations and maintenance	-	12,760,322	12,760,322
Other operations and maintenance	-	8,028,820	8,028,820
Property leases and access fees	-	8,019,766	8,019,766
Insurance	-	2,220,562	2,220,562
Marketing and sales	-	1,270,125	1,270,125
General and administrative	-	4,311,084	4,311,084
Total operating expenses	50,002,118	36,610,679	86,612,797
Operating loss before depreciation and amortization	(14,277,219)	(15,820,947)	(30,098,166)
Depreciation and amortization	(6,221,920)	(7,695,597)	(13,917,517)
Operating loss	(20,499,139)	(23,516,544)	(44,015,683)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	11,268,359	11,268,359
Commonwealth of Virginia grants	6,603,093	-	6,603,093
Federal grants	16,662,291	-	16,662,291
Investment income	29,668	19,261	48,929
Pass-through grants - member jurisdictions	(1,022)	-	(1,022)
Interest, amortization and other nonoperating expenses, net	(47,621)	(370,658)	(418,279)
Other revenue	537,880	-	537,880
Total nonoperating revenues, net	23,784,289	10,916,962	34,701,251
Capital Grants and Assistance			
Commonwealth of Virginia grants	979,444	-	979,444
Federal grants	20,113,380	-	20,113,380
Capital contributions	132,104	-	132,104
Contribution to NVTC	-	(7,173,178)	(7,173,178)
Other local contributions	-	1,065,522	1,065,522
Total capital grants and assistance, net	21,224,928	(6,107,656)	15,117,272
Income (loss) before transfers and gain (loss) on disposals of assets	24,510,078	(18,707,238)	5,802,840
Transfers, net	(31,387,614)	31,387,614	-
Gain (Loss) on Disposal of Assets	4,648	(30,146)	(25,498)
Change in net position	(6,872,888)	12,650,230	5,777,342
Net Position, beginning, as restated	100,611,184	174,855,131	275,466,315
Net Position, ending	$ 93,738,296	$ 187,505,361	$ 281,243,657

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	$ 29,951,020	$ -	$ 29,951,020
Receipts from customers	11,040,831	20,618,365	31,659,196
Receipts from advertising	191,261	-	191,261
Payments to suppliers	(27,786,265)	(33,812,739)	(61,599,004)
Payments to member jurisdictions	(18,412,945)	-	(18,412,945)
Payments to employees	(3,262,586)	(1,886,482)	(5,149,068)
Net cash used in operating activities	(8,278,684)	(15,080,856)	(23,359,540)
Cash Flows from Capital and Related Financing Activities			
Interest payments on revenue bond	(91,751)	-	(91,751)
Principal payments on revenue bond	(200,000)	-	(200,000)
Interest payments on capital leases	-	(372,766)	(372,766)
Principal payments on capital leases	-	(597,459)	(597,459)
Proceeds from sale of assets	604	1,500	2,104
Purchase of buses and related equipment	(1,428,818)	-	(1,428,818)
Acquisition of capital assets	(3,105,840)	(18,519,819)	(21,625,659)
Net cash used in capital and related financing activities	(4,825,805)	(19,488,544)	(24,314,349)
Cash Flows from Noncapital Financing Activities			
Federal and state grants bus and commuter rail services	41,309,824	-	41,309,824
Governmental subsidies	-	8,230,845	8,230,845
Interfund transfers	(28,366,285)	28,366,285	-
Payments for jurisdiction grant - related expenditures	(1,022)	(3,671,181)	(3,672,203)
Net cash provided by noncapital financing activities	12,942,517	32,925,949	45,868,466
Cash Flows From Investing Activities			
Investment income	29,668	19,261	48,929
Maturities of investment	(688,721)	-	(688,721)
Net cash provided by (used in) investing activities	(659,053)	19,261	(639,792)
Decrease in cash and cash equivalents	(821,025)	(1,624,190)	(2,445,215)
Cash and Cash Equivalents			
Beginning	46,506,081	24,953,971	71,460,052
Ending	$ 45,685,056	$ 23,329,781	$ 69,014,837

(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	$ (20,499,139)	$ (23,516,544)	$ (44,015,683)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	6,221,920	7,695,597	13,917,517
Pension expense	65,096	73,643	138,739
Gain on disposal of assets	-	(35,450)	(35,450)
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	5,138,623	-	5,138,623
Miscellaneous receivables	24,310	-	24,310
Prepaid expenses and other assets	(15,341)	19,061	3,720
Trade receivables	-	(38,494)	(38,494)
Inventory	-	(145,806)	(145,806)
Increase (decrease) in:			
Accounts payable and other liabilities	(69,177)	991,650	922,473
Accrued payroll and benefits	1,494,890	-	1,494,890
Due to other governments	(935,146)	-	(935,146)
Unearned revenue	295,280	(124,513)	170,767
Net cash used in operating activities	$ (8,278,684)	$ (15,080,856)	$ (23,359,540)
Schedule of Noncash Capital Activities:			
Capital assets acquired through:			
Accounts payable	$ 383,907	$ 831,103	$ 1,215,010
Capital contributions	132,104	36,713	168,817
Accrued expenses	-	1,511,358	1,511,358

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
City of Manassas	1	1
City of Manassas Park	1	1
City of Fredericksburg	1	1
Commonwealth House of Delegates	2	1
Commonwealth Senate	1	1
Virginia Department of Rail and Public Transportation	1	-
	17	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.

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 Motor Vehicles. The Department of Motor Vehicles 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.

PRTC reports the following major enterprise funds:

<u>Bus Service and Member Jurisdictions Fund</u>: 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.

<u>Commuter Rail Service Fund</u>: 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2015, the balance in this tax free fund was zero.

Restricted cash, cash equivalents and investments of $27,183,064 at June 30, 2015 for the Bus Service and Member Jurisdictions Fund are comprised of funds related to the 2.1% motor fuel tax revenue received on behalf of the Member Jurisdictions to be used for transit related projects.

Restricted cash, cash equivalents and investments of $5,243,766 at June 30, 2015 for the Commuter Rail Services Fund are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan 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 approximately $103,000 at June 30, 2015.

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

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.

Deferred outflows/inflows of resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. PRTC currently has one item that qualifies for reporting in this category. Accordingly, pension contributions is reported as a deferred outflow of resources.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. PRTC has only one item that qualifies for reporting in this category. Accordingly, earnings on pension plan investments is reported as a deferred inflow of resources.

Note 2. Summary of Significant Accounting Policies (Continued)

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 annual leave from year to year, while those with more than ten years may carry over 300 hours of annual leave. Excess annual 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.

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

Pensions: For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) PRTC's Retirement Plan and the additions to/deductions from the VRS PRTC's Retirement Plan net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenue recognition: Intergovernmental revenues, consisting primarily of Federal and Commonwealth of Virginia grants, designated for payment of specific expenses, are recognized at the time 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.

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 and investment income.

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.

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).

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.

Note 3. Cash and Investments (Continued)

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, 2015, PRTC had $5,217,248 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, 2015, 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	$ 18,828,000	$ -	$ 18,828,000	$ 18,828,000	$ 18,828,000
LGIP	-	14,584,032	14,584,032	14,584,032	14,584,032
	18,828,000	14,584,032	33,412,032	33,412,032	33,412,032
Restricted:					
Insurance trust fund - pooled funds	-	5,217,248	5,217,248	5,217,248	5,217,248
LGIP	27,183,064	26,518	27,209,582	27,209,582	27,209,582
	27,183,064	5,243,766	32,426,830	32,426,830	32,426,830
Total	$ 46,011,064	$ 19,827,798	$ 65,838,862	$ 65,838,862	$ 65,838,862

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.

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.

Note 3. Cash and Investments (Continued)

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

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%

Note 3. Cash and Investments (Continued)

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

	Bus Service and Member Jurisdictions
Stafford County	$ 5,147,736
Prince William County	5,911,962
City of Manassas	598,669
City of Manassas Park	2,534,936
City of Fredericksburg	4,689,080
Spotsylvania County	8,300,681
	$ 27,183,064

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions
Virginia Department of Motor Vehicles - motor fuel tax receipts	$ 3,507,638
Virginia Department of Taxation - motor fuel tax receipts	3,483
Virginia Department of Rail and Public Transportation	876,860
Federal Transit Administration	18,793,442
Washington Metropolitan Area Transit Authority	728,159
Virginia Department of Transportation	523,265
Northern Virginia Transportation Commission	146,227
Prince William County	3,080
City of Manassas	1,338
	$ 24,583,492

Note 4. Due To/From Other Governments

Amounts due to other governments are as follows:

	Bus Service And Member Jurisdictions
Spotsylvania County	$ 872,087
City of Fredericksburg	113,740
Virginia Department of Rail and Public Transportation	3,740
City of Manassas Park	1,022
	$ 990,589

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Increases	Decreases	Transfers	Balance June 30, 2015
Capital assets not being depreciated or amortized:					
Land	$ 6,639,270	$ -	$ -	$ -	$ 6,639,270
Construction in progress	11,014,687	22,608,914	-	(12,172,143)	21,451,458
Total capital assets not being depreciated or amortized	17,653,957	22,608,914	-	(12,172,143)	28,090,728
Capital assets being depreciated and amortized:					
Buses and related equipment	74,631,834	385,317	-	-	75,017,151
Rail rolling stock	114,468,418	-	(1,058,915)	11,238,478	124,647,981
Buildings	8,052,341	-	-	-	8,052,341
Building improvements	3,832,287	103,294	(2,918)	-	3,932,663
Site improvements	1,435,093	-	-	-	1,435,093
Bus shelters	1,149,013	157,289	(26,164)	128,169	1,408,307
Vehicles	188,664	14,268	-	-	202,932
Furniture and equipment	552,488	8,627	(38,203)	-	522,912
Software and easement	934,712	-	-	-	934,712
Facilities	51,224,980	-	-	-	51,224,980
Track and signal improvements	26,342,183	-	-	-	26,342,183
Furniture, equipment and software	7,928,695	111,735	(125,790)	805,496	8,720,136
Equity in local properties	2,893,643	-	-	-	2,893,643
Total capital assets being depreciated and amortized	293,634,351	780,530	(1,251,990)	12,172,143	305,335,034

Note 5. Capital Assets (Continued)

	Balance July 1, 2014	Increases	Decreases	Transfers	Balance June 30, 2015
Less accumulated depreciation and amortization for:					
Buses and related equipment	$ 47,131,771	$ 5,349,713	$ -	$ -	$ 52,481,484
Rail rolling stock	26,103,355	4,667,352	(1,058,915)	-	29,711,792
Buildings	4,427,436	268,512	-	-	4,695,948
Building improvements	1,321,685	250,744	(2,918)	-	1,569,511
Site improvements	358,554	75,567	-	-	434,121
Bus shelters	922,568	111,732	(26,164)	-	1,008,136
Vehicles	149,975	13,539	-	-	163,514
Furniture and equipment	381,888	47,564	(37,573)	-	391,879
Software and easement	640,387	110,125	-	-	750,512
Facilities	14,683,167	1,487,632	-	-	16,170,799
Track and signal improvements	9,824,116	895,851	-	-	10,719,967
Furniture, equipment and software	6,079,434	554,238	(125,790)	-	6,507,882
Equity in local properties	1,563,487	84,948	-	-	1,648,435
Total accumulated depreciation and amortization	113,587,823	13,917,517	(1,251,360)	-	126,253,980
Total capital assets being depreciated and amortized, net	180,046,528	(13,136,987)	(630)	12,172,143	179,081,054
Total capital assets, net	$ 197,700,485	$ 9,471,927	$ (630)	$ -	$ 207,171,782

Note 6. Long-Term Liabilities

Revenue Bond

$2,335,000, Series 2012 Revenue Bond, due in annual installments of $205,000 to $285,000 through October 2022, plus interest at 3.54% to 4.83%	$ 1,940,000

Mandatory debt service requirements consist of the following:

Year Ending June 30,	Principal	Interest	Total Required
2016	$ 205,000	$ 85,297	$ 290,297
2017	215,000	76,809	291,809
2018	225,000	66,884	291,884
2019	230,000	56,575	286,575
2020	245,000	45,428	290,428
2021-2023	820,000	60,519	880,519
	$ 1,940,000	$ 391,512	$ 2,331,512

Note 6. Long-Term Liabilities (Continued)

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 $18,552,350 (PRTC reporting entity, $9,276,175)	$ 15,349,786	$ 7,674,893

Future minimum lease payments as of June 30, 2015 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2016	$ 1,931,357	$ 965,679
2017	1,931,357	965,679
2018	1,931,357	965,679
2019	1,931,357	965,678
2020	1,931,357	965,678
2021-2025	9,656,787	4,828,393
Total minimum lease payments	19,313,572	9,656,786
Lease amount representing interest	3,963,786	1,981,893
Present value of lease payments	$ 15,349,786	$ 7,674,893

Capitalized Lease – Copiers

	Total	PRTC Reporting Entity
$73,425 capitalized lease obligations; $1,329 due monthly, interest at 9.39%, maturing in 2020; $330 due monthly, interest at 11.73%, maturing in 2018, collateralized with three multifunction copiers with a carrying value of $57,410 (PRTC reporting entity, $28,705)	$ 64,331	$ 32,165

Note 6. Long-Term Liabilities (Continued)

Future minimum lease payments as of June 30, 2015 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2016	$ 19,908	$ 9,954
2017	19,908	9,954
2018	19,248	9,624
2019	15,948	7,974
2020	2,658	1,329
Total minimum lease payments	77,670	38,835
Less amount representing interest	13,339	6,670
Present value of lease payments	$ 64,331	$ 32,165

The following is a summary of long-term liability activity for the year ended June 30, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bond	$ 2,140,000	$ -	$ (200,000)	$ 1,940,000	$ 205,000
Unamortized premium	352,412	-	(42,716)	309,696	-
Capital leases	8,267,805	36,713	(597,460)	7,707,058	627,581
	$ 10,760,217	$ 36,713	$ (840,176)	$ 9,956,754	$ 832,581

Note 7. Net Position

Restricted net position represents net assets subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net position as of June 30, 2015:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash and investments	$ 27,183,064	$ 26,518	$ 27,209,582
Due from other governments, net	2,527,661	-	2,527,661
Cash and investments - insurance trust fund	-	5,217,248	5,217,248
	$ 29,710,725	$ 5,243,766	$ 34,954,491

Note 7. Net Position (Continued)

Unrestricted net position consists of the following as of June 30, 2015:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support future years' budgets	$ 7,500,000	$ -	$ 7,500,000
Local match for state grants	2,745,186	-	2,745,186
Total designations	10,245,186	-	10,245,186
Undesignated unrestricted net position	12,464,835	26,364,117	38,828,952
Total unrestricted net position	$ 22,710,021	$ 26,364,117	$ 49,074,138

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, Virginia 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.

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

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.

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.

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

Financial information from VRE's fiscal year 2015 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS
STATEMENT OF NET POSITION
June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	32,291,442
Accounts receivable:		
Due from PRTC – funded by FTA		12,289,014
Commonwealth of Virginia grants		12,979,624
Trade and other, net of allowance		2,457,930
Inventory		3,899,680
Prepaid expenses and other		122,934
Restricted cash, cash equivalents and investments		10,487,532
Total current assets		74,528,156
Noncurrent Assets		
Pension asset		267,880
Capital assets (net of $129,596,559 accumulated depreciation and amortization)		327,209,068
Total noncurrent assets		327,476,948
Total assets		402,005,104
Deferred Outflows of Resources		
Pension plan		244,793
Total deferred outflows of resources		244,793
Total assets and deferred outflows of resources	$	402,249,897
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued liabilities	$	10,560,080
Unearned revenue		1,550,545
Contract retainage		1,472,874
Current portion of:		
Capital lease obligations		1,255,162
Note payable		2,080,914
Total current liabilities		16,919,575
Noncurrent Liabilities		
Capital lease obligations		14,158,955
Note payable		55,628,942
Compensated absences		356,366
Total noncurrent liabilities		70,144,263
Total liabilities		87,063,838
Deferred Inflows of Resources		
Pension plan		401,615
Total deferred inflows of resources		401,615
Net Position		
Net investment in capital assets		254,085,092
Restricted for liability insurance plan		10,487,532
Unrestricted assets		50,211,820
Total net position		314,784,444
Total liabilities, deferred inflows of resources and net position	$	402,249,897

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

VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2015

Operating Revenues	$ 37,118,760
Operating Expenses	65,637,194
Operating loss before depreciation and amortization	(28,518,434)
Depreciation and Amortization	(15,391,195)
Operating loss	(43,909,629)
Nonoperating Revenues (Expenses)	
Subsidies:	
Commonwealth of Virginia grants	14,401,957
Federal grants – with PRTC as grantee	13,688,723
Jurisdictional contributions	16,456,986
Interest income:	
Operating funds	34,337
Other restricted funds	59
Loss on disposal of assets	(60,293)
Interest, amortization and other nonoperating expenses, net	(3,534,644)
Total nonoperating revenues, net	40,987,125
Capital Grants and Assistance	
Commonwealth of Virginia grants	14,694,277
Federal grants – with PRTC as grantee	17,764,759
Other local contributions	1,079,885
Total capital grants and assistance	33,538,921
Change in net position	30,616,417
Net Position, beginning of year, as restated	284,168,027
Net Position, ending	$ 314,784,444

Note 9. 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, 2015, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	$ 11,246,056
Other jurisdictional projects	6,231,743
	$ 17,477,799

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

Note 10. 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 $184,000 at June 30, 2015, of which $92,000 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.

Note 10. 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 the 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, 2015 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1	$ 10,401,194	$ 5,200,597
Contribution to reserves	4,000,000	2,000,000
Insurance premiums paid	(3,883,676)	(1,941,838)
Claims mitigation costs and losses incurred	(16,551)	(8,276)
Actuarial and administrative charges	(66,471)	(33,235)
Ending balance, June 30	$ 10,434,496	$ 5,217,248

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 11. Related Party Transactions

For the year ended June 30, 2015, expenses incurred for legal services provided by Prince William County were $39,000.

Note 12. 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, 2015 were $21,375.

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, 2015 were $44,087.

Note 13. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

All full-time, salaried permanent employees of PRTC are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virgini*a, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1

Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

PLAN 2

Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

HYBRID RETIREMENT PLAN

Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees.*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component** See definition under Plan 1 **Defined Contribution Component** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component** The retirement multiplier for the defined benefit component is 1.0%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Continued)	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the highest of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component** Not applicable.

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive Members or Their Beneficiaries Currently Receiving Benefits	16
Inactive Members:	
Vested	16
Non-Vested	23
Active Elsewhere in VRS	8
Total Inactive Members	47
Active Members	82
Total covered employees	145

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

Contributions

The contribution requirement for active employees is governed by Section 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Commission elected to not phase in the increase, but rather provided a 5.00% salary increase to all employees on July 1, 2012.

PRTC's contractually required contribution rate for the year ended June 30, 2015 was 6.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from PRTC were $460,768 for the year ended June 30, 2015.

B. Net Pension Asset

PRTC's net pension asset was measured as of June 30, 2014. The total pension asset used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions

The total pension asset for PRTC's retirement plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal Actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 %
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension benefits.

Note 13. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the following:

Mortality Rates:	14% of deaths are assumed to be service related.
- Pre-retirement:	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.
- Post-retirement:	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.
- Post-disablement:	RP-2000 Disabled Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 13. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	1.26%
Developed Non-U.S. Equity	16.50%	1.04%
Emerging Market Equity	6.00%	0.60%
Fixed Income	15.00%	0.01%
Emerging Debt	3.00%	0.11%
Rate Sensitive Credit	4.50%	0.16%
Non-Rate Sensitive Credit	4.50%	0.23%
Convertibles	3.00%	0.14%
Public Real Estate	2.25%	0.14%
Private Real Estate	12.75%	0.91%
Private Equity	12.00%	1.25%
Cash	1.00%	-0.02%
Total	100.00%	5.83%
	Inflation	2.50%
	* Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 13. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Discount Rate

The discount rate used to measure the total pension asset was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for PRTC's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension asset.

C. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability(Asset)
Balance at June 30, 2013	$ 11,021,316	$ 10,379,843	$ 641,473
Changes for the Year:			
Service cost	722,134	-	722,134
Interest	763,704	-	763,704
Contributions – employer	-	528,296	(528,296)
Contributions – employee	-	414,844	(414,844)
Net investment income	-	1,697,173	(1,697,173)
Benefit payments, including refunds of employee contributions	(222,525)	(222,525)	-
Administrative expense	-	(8,482)	8,482
Other changes	-	89	(89)
Net changes	1,263,313	2,409,395	(1,146,082)
Balance at June 30, 2014	$ 12,284,629	$ 12,789,238	$ (504,609)

Note 13. Pension Plan (Continued)

C. Changes in the Net Pension Asset (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Commission, using the discount rate of 7.00%, as well as what the Commission's net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension (asset) liability	$ 1,314,818	$ (504,609)	$ (1,995,757)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued VRS financial report. Additional financial information supporting the preparation of the VRS Political Subdivision Plan Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is presented in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR is publicly available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Commission recognized pension expense of $138,739. The Commission also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 756,525
Employer contributions subsequent to the measurement date	460,768	-
Total	$ 460,768	$ 756,525

$460,768 reported as deferred outflows of resources related to pensions resulting from PRTC's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2016.

Note 13. Pension Plan (Continued)

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		Amount
2016	$	189,131
2017		189,131
2018		189,131
2019		189,132
	$	756,525

Note 14. Contingencies and Contractual Commitments

Fuel Contractual Commitments

PRTC entered into contracts at various times in August 2014 through January 2015 to purchase fuel at set prices for delivery in July 2015 through January 2017. The total commitment is for 1,260,000 gallons of fuel at approximately $3.3 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.

At June 30, 2015, 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, 2015:

Stations and parking lots	$	4,847,230
Rail rolling stock		33,003,217
Maintenance and layover yards		2,514,875
Track and signal improvements		13,387,084
Other administrative		1,953,362
Total	$	55,705,768

Note 15. 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, 2015, annual track usage fees totaled approximately $8,550,200, of which $4,788,000 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately $520,600, of which $291,500 is recognized by the PRTC reporting entity.

The 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, 2015 was approximately $5,592,000, of which $3,132,000 was recognized by the PRTC reporting entity. A new agreement will be in effect for the period beginning July 1, 2015. Costs in future years will be adjusted based on changes to various published cost indices and the number of trains that have access to and are stored and serviced at the terminal.

The Commissions have 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, 2015, based on an annual budget prepared in advance, was approximately $18,609,000 of which $10,421,000 is recognized by the PRTC reporting entity. A new contract will be in effect for the period beginning July 1, 2015. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

Note 16. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	$ -	$ 31,453,482	$ 31,453,482
Commuter Rail Service	(65,868)	-	(65,868)
Total transferred in	$ (65,868)	$ 31,453,482	$ 31,387,614

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 17. Prior Period Adjustment

The prior period adjustment to beginning net position is required to record the impact of GASB Statement No. 68. The following adjustment has been recorded:

	Bus Service and Member Jurisdictions	Commuter Rail Service
Net position as originally reported, July 1, 2014	$ 100,664,269	$ 174,915,223
Net adjustment for implementation of GASB Statement No. 68	(53,085)	(60,092)
Net position or fund balance as adjusted, July 1, 2014	$ 100,611,184	$ 174,855,131

Note 18. Pending GASB Statements

At June 30, 2015, 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. 72, *Fair Value Measurement and Application*, will improve measurement and application by state and local governments for fair value. Statement No. 72 will be effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, will improve accounting and financial reporting by state and local governments for pensions. It will also improve the comparability of pension-related information. Statement No. 73 will be effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will improve financial reporting by state and local governments for OPEB. It also provides information for changes of OPEB liabilities from year to year. Statement No. 74 will be effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will improve accounting and financial reporting by state and local governments for OPEB. It will also require the recognition of the entire OPEB liability and a comprehensive measure of OPEB expense. Statement No. 75 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will improve financial reporting for state and local governments by providing greater reporting guidance to provide less variation in financial reporting. Statement No. 76 will be effective for fiscal years beginning after June 15, 2015.

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

Note 19. Subsequent Events

PRTC entered into contracts during July 2015 to purchase fuel at set prices for delivery in February 2017 through June 2017. The total commitment is for 210,000 gallons of fuel at approximately $400,000. 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 June 2015 through September 2015 to purchase fuel at set prices for delivery in July 2015 through June 2016. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 1,008,000 gallons of fuel at a cost of approximately $2.0 million.

In September 2015, the Commissions authorized the Chief Executive Officer of VRE to amend the contract with Sumitomo Corporation of America to place an order for nine additional Gallery railcars and to increase the contract value by $18.9 million, following the recommendation of the Operations Board in July 2015.

On July 7, 2015 the Commonwealth of Virginia, Department of Transportation took by eminent domain the land and improvements associated with the Kiss and Ride facility at VRE's Woodbridge Station for the purpose of widening Route 1 and reconstructing the Route 1/123 Interchange. VRE is currently negotiating the price to be paid by the Commonwealth for the land and improvements. As the result of their participation in the purchase of land and construction costs associated with the Kiss and Ride facility, 80 per cent of the appraised value must be returned to the Federal Transit Administration or used for a future eligible capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30, 2014
Contractually required contribution (CRC)	$ 528,296
Contributions in relation to the CRC	528,296
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 6,856,560
Contributions as a percentage of covered-employee payroll	7.70%

Notes to Schedule:

(1) Valuation date: June 30, 2014

(2) Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

(3) Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20-29 years
Asset valuation method	5-year smoothed market
Cost-of-living adjustments	2.25-2.50%
Projected salary increases	3.50-5.35%, including inflation at 2.50%
Investment rate of return	7.0%, including inflation at 2.50%

(4) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CHANGES IN NET PENSION ASSET - VIRGINIA RETIREMENT SYSTEM

		As of June 30, 2014
Total Pension Liability		
Service cost	$	722,134
Interest		763,704
Benefit payments, including refunds of employee contributions		(222,525)
Net change in total pension liability		1,263,313
Total pension liability - beginning		11,021,316
Total pension liability - ending (a)	$	12,284,629
Plan Fiduciary Net Position		
Contributions - employer	$	528,296
Contributions - employee		414,844
Net investment income		1,697,173
Benefit payments, including refunds of employee contributions		(222,525)
Administrative expense		(8,482)
Other		89
Net change in plan fiduciary net position		2,409,395
Plan fiduciary net position - beginning		10,379,843
Plan fiduciary net position - ending (b)	$	12,789,238
PRTC's net pension asset - ending (a) - (b)	$	(504,609)
Plan fiduciary net position as a percentage of the total pension liability		104.11%
Covered-employee payroll	$	6,856,560
PRTC's net pension asset as a percentage of covered - employee payroll		7.36%

Notes to Schedule:

(1) **Changes of benefit terms:** There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

(2) **Changes of assumptions:** The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:

a. Update mortality table
b. Adjustments to rates of service retirement for females
c. Increase in rates of withdrawal
d. Decrease in male and female rates of disability

(3) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, PRTC will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - BUS SERVICE AND MEMBER JURISDICTIONS
June 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2015**	2014
Current Assets		
Cash and investments in bank	**$ 18,501,992**	$ 15,501,941
Receivables:		
Due from other governments	**24,583,492**	26,750,013
Due from Commuter Rail Service Fund	**1,557,306**	468,826
Miscellaneous	**69,962**	92,058
Prepaid expenses and other assets	**40,595**	159,733
Restricted assets:		
Cash and investments in pooled funds - member jurisdictions	**27,183,064**	31,004,140
Tax free money market	**-**	688,721
Total current assets	**71,936,411**	74,665,432
Noncurrent Assets		
Net pension asset	**236,729**	-
Capital assets:		
Transportation equipment:		
Buses and related equipment	**75,017,151**	74,631,834
Less: accumulated depreciation	**(52,481,484)**	(47,131,771)
Transportation equipment, net	**22,535,667**	27,500,063
Land, buildings, and equipment:		
Land	**6,639,270**	6,639,270
Buildings	**8,052,341**	8,052,341
Building improvements	**3,932,663**	3,832,287
Construction in progress	**6,931,165**	4,195,259
Site improvements	**1,435,093**	1,435,093
Bus shelters	**1,408,307**	1,149,013
Vehicles	**149,332**	149,332
Furniture and equipment	**522,912**	552,488
Software and easement	**934,712**	934,712
Less: accumulated depreciation and amortization	**(8,974,216)**	(8,168,665)
Land, buildings and equipment, net	**21,031,579**	18,771,130
Total capital assets, net	**43,567,246**	46,271,193
Total noncurrent assets	**43,803,975**	46,271,193
Total assets	**115,740,386**	120,936,625
Deferred Outflows of Resources		
Pension plan	**215,975**	-
Total deferred outflows of resources	**215,975**	**-**
Total assets and deferred outflows of resources	**$ 115,956,361**	$ 120,936,625

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2015	2014
Current Liabilities		
Accounts payable and other liabilities	$ 3,904,993	$ 4,633,764
Accrued payroll and benefits	439,819	374,009
Accrued interest	22,231	23,644
Due to other governments	990,589	1,925,735
Due to Commuter Rail Service Fund	12,289,014	9,201,817
Unearned revenue	1,108,112	886,795
Compensated absences	376,185	9,109
Bond payable - current portion	205,000	200,000
Total current liabilities	19,335,943	17,254,873
Noncurrent Liabilities		
Compensated absences	482,516	725,071
Bond payable, net	2,044,696	2,292,412
Total noncurrent liabilities	2,527,212	3,017,483
Total liabilities	21,863,155	20,272,356
Deferred Inflows of Resources		
Pension plan	354,910	-
Total deferred inflows of resources	354,910	-
Net Position		
Net investment in capital assets	41,317,550	43,778,781
Restricted	29,710,725	37,712,144
Unrestricted	22,710,021	19,173,344
Total net position	93,738,296	100,664,269
Total liabilities, deferred inflows of resources and net position	$ 115,956,361	$ 120,936,625

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUS SERVICE AND MEMBER JURISDICTIONS
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Motor fuel tax	**$ 24,832,142**	$ 34,899,261
Farebox	**10,701,496**	11,778,493
Advertising	**191,261**	107,049
Total operating revenues	**35,724,899**	46,784,803
Operating Expenses		
Direct transportation	**17,477,799**	24,234,437
Salaries and related benefits	**4,822,572**	4,807,138
Contractual services	**22,671,944**	21,583,669
Other services	**1,465,127**	933,745
Materials, supplies and minor equipment	**309,944**	1,329,972
Fuel	**3,254,732**	3,476,990
Total operating expenses	**50,002,118**	56,365,951
Operating loss before depreciation and amortization	**(14,277,219)**	(9,581,148)
Depreciation and amortization	**(6,221,920)**	(8,797,924)
Operating loss	**(20,499,139)**	(18,379,072)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	**6,603,093**	6,740,328
Federal grants	**16,662,291**	19,955,954
Investment income	**29,668**	30,333
Pass-through grants - member jurisdictions	**(1,022)**	(1,653)
Interest expense	**(47,621)**	(53,232)
Other revenue	**537,880**	373,911
Total nonoperating revenues, net	**23,784,289**	27,045,641
Capital Grants and Assistance		
Commonwealth of Virginia grants	**979,444**	6,656,317
Federal grants	**20,113,380**	13,287,025
Capital contributions	**132,104**	51,640
Total capital grants and assistance	**21,224,928**	19,994,982
Income before transfers and gain on disposal of assets	**24,510,078**	28,661,551
Transfers In	**65,868**	67,195
Transfers Out	**(31,453,482)**	(21,352,428)
Transfers, net	**(31,387,614)**	(21,285,233)
Gain (Loss) on Disposal of Assets	**4,648**	(238,053)
Change in net position	**(6,872,888)**	7,138,265
Net Position, beginning, as restated	**100,611,184**	93,526,004
Net Position, ending	**$ 93,738,296**	$ 100,664,269

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - COMMUTER RAIL SERVICE
June 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014
Current Assets		
Cash and investments in bank	$ 18,086,015	$ 19,726,885
Receivables:		
Due from Bus Service and Member Jurisdictions Fund	12,289,014	9,201,817
Trade receivables, net of allowance for doubtful accounts	954,976	863,676
Miscellaneous	736,413	59,743
Inventory	2,184,160	1,920,907
Prepaid expenses and other assets	68,854	90,729
Restricted cash, cash equivalents and investments	5,243,766	5,227,086
Total current assets	39,563,198	37,090,843
Noncurrent Assets		
Net pension asset	267,880	-
Capital assets:		
Transportation equipment:		
Rail rolling stock	124,647,981	114,468,418
Less: accumulated depreciation	(29,711,792)	(26,103,355)
Transportation equipment, net	94,936,189	88,365,063
Buildings and equipment:		
Construction in progress	14,520,293	6,819,428
Vehicles	53,600	39,332
Furniture, equipment and software	8,720,136	7,928,695
Equity in local properties	2,893,643	2,893,643
Facilities	51,224,980	51,224,980
Track and signal improvements	26,342,183	26,342,183
Less: accumulated depreciation and amortization	(35,086,488)	(32,184,032)
Buildings and equipment, net	68,668,347	63,064,229
Total capital assets, net	163,604,536	151,429,292
Total noncurrent assets	163,872,416	151,429,292
Total assets	203,435,614	188,520,135
Deferred Outflows of Resources		
Pension plan	244,793	-
Total deferred outflows of resources	244,793	-
Total assets and deferred outflows of resources	$ 203,680,407	$ 188,520,135

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2015	2014
Current Liabilities		
Accounts payable and other liabilities	**$ 1,992,547**	$ 1,489,856
Accrued expenses	**2,636,323**	2,116,976
Due to Bus Service and Member Jurisdictions Fund	**1,557,306**	468,826
Unearned revenue	**868,440**	935,741
Capital lease	**627,581**	592,912
Interest payable - capital lease	**58,713**	63,248
Retainage payable	**736,437**	92,988
Compensated absences	**17,012**	24,261
Total current liabilities	**8,494,359**	5,784,808
Noncurrent Liabilities		
Compensated absences	**199,595**	145,211
Capital lease	**7,079,477**	7,674,893
Total noncurrent liabilities	**7,279,072**	7,820,104
Total liabilities	**15,773,431**	13,604,912
Deferred Inflows of Resources		
Pension plan	**401,615**	-
Total deferred inflows of resources	**401,615**	-
Net Position		
Net investment in capital assets	**155,897,478**	143,161,487
Restricted for liability insurance plan	**5,243,766**	5,227,086
Unrestricted	**26,364,117**	26,526,650
Total net position	**187,505,361**	174,915,223
Total liabilities, deferred inflows of resources and net position	**$ 203,680,407**	$ 188,520,135

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - COMMUTER RAIL SERVICE
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Passenger revenues	**$ 20,555,297**	$ 19,578,515
Equipment rental and other	**234,435**	104,463
Total operating revenues	**20,789,732**	19,682,978
Operating Expenses		
Contract operations and maintenance	**12,760,322**	12,219,634
Other operations and maintenance	**8,028,820**	7,859,967
Property leases and access fees	**8,019,766**	7,349,313
Insurance	**2,220,562**	2,107,023
Marketing and sales	**1,270,125**	1,062,134
General and administrative	**4,311,084**	4,046,093
Total operating expenses	**36,610,679**	34,644,164
Operating loss before depreciation and amortization	**(15,820,947)**	(14,961,186)
Depreciation and Amortization	**(7,695,597)**	(7,353,229)
Operating loss	**(23,516,544)**	(22,314,415)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	**11,268,359**	11,351,324
Investment income	**19,261**	14,803
Interest, amortization and other nonoperating expenses, net	**(370,658)**	(394,737)
Total nonoperating revenues, net	**10,916,962**	10,971,390
Capital Grants and Assistance		
Contribution to NVTC	**(7,173,178)**	(10,162,936)
Other local contributions	**1,065,522**	1,346,195
Total capital grants and assistance, net	**(6,107,656)**	(8,816,741)
Loss before transfers and loss on disposals	**(18,707,238)**	(20,159,766)
Transfers Out	**(65,868)**	(67,195)
Transfers In	**31,453,482**	21,352,428
Transfers, net	**31,387,614**	21,285,233
Gain (Loss) on Disposal of Assets	**(30,146)**	750
Extraordinary Item	**-**	(1,830,393)
Change in net position	**12,650,230**	(704,176)
Net Position, beginning, as restated	**174,855,131**	175,619,399
Net Position, ending	**$ 187,505,361**	$ 174,915,223

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS
Year Ended June 30, 2015

	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, 2014	$ 3,811,034	$ 840,896	$ 2,574,656	$ 15,273,121	$ 7,138,940	$ 8,073,497	$ 37,712,144
Funds Received:							
Motor fuel tax	1,708,426	1,096,506	709,345	12,729,572	3,828,615	4,759,678	24,832,142
Other	-	81,919	-	-	-	-	81,919
Interest	4,508	364	2,618	5,762	5,902	8,565	27,719
Total funds received	1,712,934	1,178,789	711,963	12,735,334	3,834,517	4,768,243	24,941,780
Funds Disbursed:							
Direct transportation expenses:							
VRE operating and capital	581,244	686,944	401,762	5,485,333	2,689,391	1,401,382	11,246,056
Other projects	113,741	238,215	-	-	2,570,497	3,309,290	6,231,743
Transfers to PRTC:							
Administrative	25,900	12,900	13,900	246,700	81,200	76,400	457,000
OmniRide, OmniLink, Capital Improvement, Marketing, VanPool	2,600	316,900	232,000	14,441,100	8,100	7,700	15,008,400
Total funds disbursed	723,485	1,254,959	647,662	20,173,133	5,349,188	4,794,772	32,943,199
Funds Available - June 30, 2015	$ 4,800,483	$ 764,726	$ 2,638,957	$ 7,835,322	$ 5,624,269	$ 8,046,968	$ 29,710,725

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, 2015. Total funds available reconcile to amounts reported on the statement of net position as follows:

Cash and investments in pooled funds - member jurisdictions	$ 27,183,064
Due from other governments - Motor fuels tax revenue receipts and DRPT grant	3,513,488
Due to other governments - member jurisdictions	(985,827)
	$ 29,710,725

Note 2 - Expenses for other jurisdictional projects consist of:

Road improvements/maintenance, sidewalks	$ 82,741	$ -	$ -	$ -	$ 2,173,004	$ -	$ 2,255,745
Station, other rail, and garage maintenance	15,000	-	-	-	-	-	15,000
Street signs, human services transportation, airport, bike trails, bus shelters, professional services	16,000	-	-	-	118,725	-	134,725
Parking garage debt service, parking leases	-	238,215	-	-	-	-	238,215
FRED transit costs	-	-	-	-	278,768	405,724	684,492
Transportation salaries/benefits; debt service	-	-	-	-	-	2,903,566	2,903,566
	$ 113,741	$ 238,215	$ -	$ -	$ 2,570,497	$ 3,309,290	$ 6,231,743

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2015

State Granting Agency	State Grant Number		Expenses
Direct Payments:			
Virginia Department of Rail and Public Transportation:			
Formula Assistance	72015-34	$	5,383,591
Ridesharing Assistance	71015-11; 72514-08		216,000
Transportation Intern	71215-05		22,188
Financial Plan Tech Assistance	71315-05		12,500
TMP Bus Services	72514-02; 72514-15; 72515-03; 72515-04; 72515-06		346,683
I-95 Transit and TDM Bus Service	71315-10		141,996
Vanpool Program	71413-06; 72513-02; 72513-36		381,164
Capital - FY 09	72509-36		285,404
Capital - FY 12	73012-93; 73012-94; 73012-95; 73012-98		98,862
Capital - FY 13	73013-54; 73013-55; 73113-49; 73113-57		315,444
Capital - FY 14	72514-09		20,178
Capital - FY 14	73014-78		2,426
Capital - FY 14	73014-89		4,745
Capital - FY 14	73014-90		238
Capital - FY 14	73014-91		7,042
Capital - FY 14	73114-75		75,588
Capital - FY 15	73115-05		657
Capital - FY 15	73115-06		944
Capital - FY 15	73115-07		1,022
Capital - FY 15	73115-08		76,258
Capital - FY 15	73115-09		3,235
Capital - FY 15	73115-10		25,273
Capital - FY 15	73115-11		376
Capital - FY 15	73115-12		6,037
Capital - FY 15	73115-13		33,599
Capital - FY 15	73115-14		3,741
Capital - FY 15	73115-15		29,755
			7,494,946
Passthrough Payments:			
Virginia Department of Transportation:			
Congestion Mitigation & Air Quality (Employer Outreach)			13,627
Total State Awards Expended		$	7,508,573

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Granting Agency / Grant Program /Grant Number	Pass-through Federal Entity Identifying Number	Federal CFDA Number	Expenses
DEPARTMENT OF TRANSPORTATION:			
Direct Payments:			
Federal Transit Administration:			
VA-90-X401		20.507	$ 47,696
VA-95-X046		20.507	1,252,910
VA-95-X126		20.507	567,258
VA-95-X149 (Pending)		20.507	320,712
VA-90-X435 (Pending)		20.507	554,014
Pending 5337 Grant		20.525	1,534,035
VA-05-0038		20.500	26,482
VA-05-0041		20.500	73,990
VA-05-0042		20.500	26,808
VA-05-0048		20.500	4,465,787
VA-90-X232 (Closed)		20.507	3
VA-90-X269		20.507	1,086,661
VA-90-X307		20.507	77,381
VA-90-X352		20.507	48,631
VA-90-X368		20.507	24,303
VA-90-X401		20.507	2,718,094
VA-90-X435 (Pending)		20.507	5,001,508
VA-95-X046		20.507	177,452
VA-95-X109 (Closed)		20.507	8,240,000
VA-95-X137		20.507	8,026,241
VA-95-X149 (Pending)		20.507	722
TBD		20.500	751,283
			35,021,971
Passthrough Payments:			
Metropolitan Washington Council of Governments:			
TIGER	DC-78-0001	20.932	991,057
Virginia Department of Transportation:			
Congestion Mitigation & Air Quality (Employer Outreach)	CM-96A-9-084	20.205	54,507
Virginia Department of Transportation	5A01(236)	20.205	708,136
Total Federal Awards Expended			$36,775,671

See Note to Schedule of Expenditures of Federal Awards.

Note 1. Summary of Significant Accounting Policies

A. <u>Basis of Presentation and Accounting</u>

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.

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 and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 18, 2015.

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 a deficiency in internal control over financial reporting we consider to be a material weakness.

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 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 less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as item 2015-01 to be a material weakness.

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 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
November 18, 2015

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, 2015. 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 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 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, 2015.

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 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
November 18, 2015

SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2015

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	√ Yes	___ No
Significant deficiency identified	___ Yes	√ No
Noncompliance material to financial statements noted	___ Yes	√ No

Federal awards

Internal control over major programs:

Material weaknesses identified	___ Yes	√ No
Significant deficiencies identified	___ Yes	√ 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?	___ Yes	√ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Federal Transit Cluster:	
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants

Dollar threshold used to distinguish between type A and type B programs: $1,103,270

Auditee qualified as low-risk auditee? ___ Yes √ No

II. FINANCIAL STATEMENT FINDINGS

2015-01: 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. Management is developing an aggressive plan to address these access rights.

PBMares, LLP performed an IT review of MUNIS user access to provide recommendations about how user access can be modified to enhance the control environment. Management has reviewed the draft report and concurs with many of the recommendations. There were a number of items that management did not agree with the auditor's recommendation and will require further discussion with PBMares, LLP before a final report is issued. Upon further discussion and consideration, management will decide which recommendations to implement, taking into consideration business practice realities. An implementation schedule will be developed to systematically address the various roles and job functions within MUNIS. Access rights for each job function will be fully documented. Documentation may include items such as a MUNIS generated report that lists roles, assigned users, and user permissions. Estimated completion date for addressing and resolving this finding is by April 30, 2016.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2015

Identifying Number: 14-01

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 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.

Identifying Number: 14-02

Finding:

There is a significant deficiency related to filing of grant reimbursement requests and recording of grant revenue.

Corrective Action Taken or Planned:

Since the establishment and implementation of grant reimbursement procedures, the Commission has timely filed grant reimbursement requests and recorded related grant revenue.