POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2014

PBMares[SM]

ASSURANCE, TAX & ADVISORY SERVICES

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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 of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2014, 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, 2014, 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.

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

Other Information

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

The supplementary information 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 December 19, 2014 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Potomac and Rappahannock Transportation Commission ("PRTC") offers the users of PRTC's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. 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, 2014, PRTC's assets exceeded liabilities by $275,579,492. Of this total, $100,664,269 is for bus service and member jurisdictions and $174,915,223 is for commuter rail service.

The net position of PRTC increased by $6,434,089 for fiscal year 2014. This is the net effect of a $7,138,265 increase from bus service and member jurisdictions and a $704,176 decrease from commuter rail service.

As of June 30, 2014, PRTC's unrestricted net position is $45,699,994. Of this total, $19,173,344 is for bus service and member jurisdictions and $26,526,650 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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of PRTC is improving or declining.

The 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, VA 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, 2014 and 2013:

Summary of Net Position
As of June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assets:						
Current assets	$ 65,463,615	$ 63,823,735	$ 36,622,017	$ 31,725,324	$ 102,085,632	$ 95,549,059
Capital assets, net	46,271,193	40,086,375	151,429,292	156,023,514	197,700,485	196,109,889
Total assets	111,734,808	103,910,110	188,051,309	187,748,838	299,786,117	291,658,948
Liabilities:						
Current liabilities	8,053,056	7,204,370	5,315,982	3,696,617	13,369,038	10,900,987
Noncurrent liabilities	3,017,483	3,179,736	7,820,104	8,432,822	10,837,587	11,612,558
Total liabilities	11,070,539	10,384,106	13,136,086	12,129,439	24,206,625	22,513,545
Net Position:						
Net investment in capital assets	43,778,781	37,356,246	143,161,487	147,189,101	186,940,268	184,545,347
Restricted	37,712,144	39,925,218	5,227,086	5,217,572	42,939,230	45,142,790
Unrestricted	19,173,344	16,244,540	26,526,650	23,212,726	45,699,994	39,457,266
Total net position	$ 100,664,269	$ 93,526,004	$ 174,915,223	$ 175,619,399	$ 275,579,492	$ 269,145,403

As noted earlier, net position may serve as a useful indicator of a government's financial position. As shown above, total assets exceeded liabilities by $275,579,492, an increase of $6,434,089 over the previous fiscal year. The largest portion of net position, $186,940,268 or 67.8%, 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, $42,939,230 or 15.6%, 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 increased approximately $6.5 million or 6.8% from the prior year, primarily due to increased cash and investments offset by decreased grant receivables.

Capital assets, net of accumulated depreciation and amortization, increased approximately $1.6 million or 0.8%, primarily as the result of bus additions and overhauls, the sale of older buses, annual depreciation and amortization, and new rail project construction and the write-off of certain prior year amounts.

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, 2014 and 2013:

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

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Revenues:						
Operating revenues	$ 46,784,803	$ 42,283,064	$ 19,682,978	$ 21,105,264	$ 66,467,781	$ 63,388,328
Nonoperating revenues	27,100,526	28,229,086	11,366,877	11,599,338	38,467,403	39,828,424
Capital grants & assistance, net	19,994,982	13,131,856	(8,816,741)	(12,368,666)	11,178,241	763,190
Transfers, net	(21,285,233)	(19,773,020)	21,285,233	19,773,020	-	-
Total revenues	72,595,078	63,870,986	43,518,347	40,108,956	116,113,425	103,979,942
Expenses:						
Operating expenses	56,365,951	47,123,503	34,644,164	36,572,368	91,010,115	83,695,871
Depreciation and amortization	8,797,924	8,419,484	7,353,229	7,232,722	16,151,153	15,652,206
Nonoperating expenses	292,938	59,184	2,225,130	804,588	2,518,068	863,772
Total expenses	65,456,813	55,602,171	44,222,523	44,609,678	109,679,336	100,211,849
Change in net position	7,138,265	8,268,815	(704,176)	(4,500,722)	6,434,089	3,768,093
Net position, beginning	93,526,004	85,257,189	175,619,399	180,120,121	269,145,403	265,377,310
Net position, ending	$ 100,664,269	$ 93,526,004	$ 174,915,223	$ 175,619,399	$ 275,579,492	$ 269,145,403

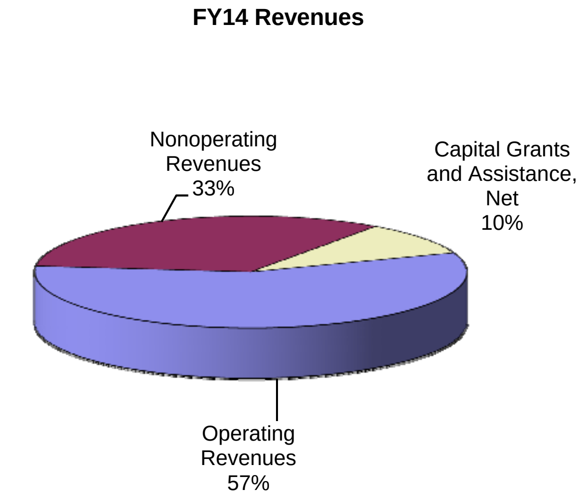
For the fiscal year ended June 30, 2014, revenues totaled $116.1 million, compared to $104.0 million in the preceding year, an increase of $12.1 million or 11.7%. Expenses increased by $9.5 million or 9.5%. A discussion of the key components of these changes follows.

Operating revenues increased $3.1 million or 4.9% from the prior year, primarily the result of an increase in motor fuel tax revenue. Motor fuel tax revenue increased approximately $3.3 million or 10.4%.

Nonoperating revenues decreased by $1.4 million or 3.4% from the prior year, primarily the result of federal and state nonoperating grant revenue, which decreased by $1.1 million.

Net capital grants and assistance increased by $10.4 million, which is attributable to more bus service related capital grants for fiscal year 2014 compared to fiscal year 2013. Since PRTC is the grantee for federal funds, $10.2 million of the federal funding awarded for the commuter rail service was contributed to NVTC in the allocation process for fiscal year 2014 financial reporting purposes, compared with $12.5 million for fiscal year 2013.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2014.

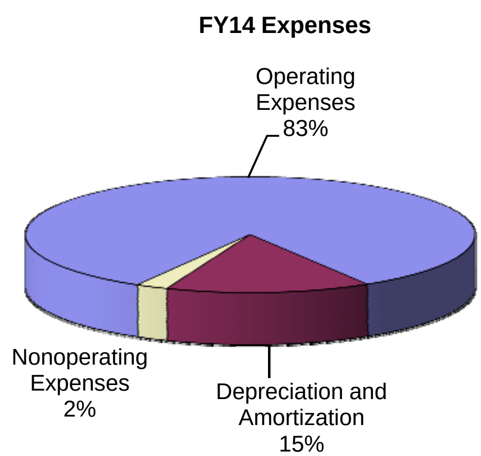


Operating expenses increased by $7.3 million or 8.7%.

For the Bus Service and Member Jurisdictions Fund, operating expenses increased by $9.2 million. Direct transportation expenses, which represent the use of jurisdictional motor fuel tax funds for the VRE subsidy as well as other jurisdictional transportation projects independent of PRTC, increased by $6.2 million. Contractual services increased by $2.3 million for two reasons -- the contractually specified escalation rate in PRTC's contract for bus services operations and maintenance and a small increase in revenue hours of service.

For the Commuter Rail Service fund, operating expenses decreased by $1.9 million or 5.3%. While total operating expenses of the commuter rail service increased between years, PRTC's share of the reporting entity decreased from 60% to 53%, with a corresponding increase for NVTC. The shift is primarily the result of how commuter rail access fees are reimbursed, with additional funds received from the Commonwealth of Virginia and less from the Federal Government. (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, 2014.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2014 and 2013 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2014	2013	2014	2013	2014	2013
Buses and related equipment	$ 74,631,834	$ 68,684,567	$ -	$ -	$ 74,631,834	$ 68,684,567
Rail rolling stock	-	-	114,468,418	114,468,418	114,468,418	114,468,418
Land	6,639,270	1,847,335	-	-	6,639,270	1,847,335
Buildings	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Building improvements	3,832,287	3,791,600	-	-	3,832,287	3,791,600
Construction in process	4,195,259	2,824,767	6,819,428	5,062,564	11,014,687	7,887,331
Site improvements	1,435,093	1,435,093	-	-	1,435,093	1,435,093
Bus shelters	1,149,013	1,088,805	-	-	1,149,013	1,088,805
Vehicles	149,332	109,512	39,332	49,916	188,664	159,428
Furniture and equipment	552,488	526,928	-	-	552,488	526,928
Software and easement	934,712	865,367	-	-	934,712	865,367
Facilities	-	-	51,224,980	50,954,532	51,224,980	50,954,532
Track and signal improvements	-	-	26,342,183	26,342,183	26,342,183	26,342,183
Furniture, equipment and software	-	-	7,928,695	7,197,749	7,928,695	7,197,749
Equity in local properties	-	-	2,893,643	2,893,643	2,893,643	2,893,643
	101,571,629	89,226,315	209,716,679	206,969,005	311,288,308	296,195,320
Less accumulated depreciation and amortization	55,300,436	49,139,940	58,287,387	50,945,491	113,587,823	100,085,431
Total capital assets, net	$ 46,271,193	$ 40,086,375	$ 151,429,292	$ 156,023,514	$ 197,700,485	$ 196,109,889

PRTC's investment in capital assets as of June 30, 2014, amounted to $197.7 million (net of accumulated depreciation and amortization), which represents an increase of $1.6 million or 0.8%.

For bus service and member jurisdictions, during fiscal year 2014, PRTC purchased land in Prince William County for the western maintenance facility at a cost of $4.8 million, and engineering/design work began as well. In addition, twenty-two OmniRide buses were overhauled, one new OmniRide and eleven new OmniLink buses were delivered, and eleven OmniLink buses were sold during fiscal year 2014. The new buses and the overhaul-related costs combined amounted to $8.8 million.

For commuter rail service, completed projects totaling approximately $0.95 million were closed from construction in progress to their respective capital accounts and an additional $.035 million was charged directly to the capital accounts.

The major completed commuter rail projects were: the fare system upgrade project ($0.45 million); the lighting upgrade project at Franconia and Backlick stations ($0.2 million); and the installations of security cameras at various stations ($0.15 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 ($4.7 million); the construction of fifteen replacement railcars ($0.3 million); and the development of a mobile ticketing system ($0.1 million).

During fiscal year 2014, rail service costs of $1.8 milion recorded as construction in process in prior years for preliminary engineering related to the Cherry Hill track project were expensed as an extraordinary item because the track construction will now be carried out by the Virginia Department of Rail and Public Transportation.

Debt Administration

At June 30, 2014, PRTC had an outstanding principal balance of $2,140,000 for its Series 2012 Revenue Bond with the Virginia Resources Authority.

PRTC's portion of debt for the commuter rail service is $8.3 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET POSITION
June 30, 2014

ASSETS	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	$ 15,501,941	$ 19,726,885	$ 35,228,826
Receivables:			
Due from other governments	26,750,013	-	26,750,013
Trade receivables, net of allowance for doubtful accounts	-	863,676	863,676
Miscellaneous	92,058	59,743	151,801
Internal balances	(8,732,991)	8,732,991	-
Inventory	-	1,920,907	1,920,907
Prepaid expenses and other assets	159,733	90,729	250,462
Restricted assets:			
Cash and investments in pooled funds - member jurisdictions	31,004,140	-	31,004,140
Tax free money market	688,721	-	688,721
Cash, cash equivalents and investments	-	5,227,086	5,227,086
Total current assets	65,463,615	36,622,017	102,085,632
Capital assets:			
Transportation equipment:			
Buses and related equipment	74,631,834	-	74,631,834
Rail rolling stock	-	114,468,418	114,468,418
Less: accumulated depreciation	(47,131,771)	(26,103,355)	(73,235,126)
Transportation equipment, net	27,500,063	88,365,063	115,865,126
Land, buildings and equipment:			
Land	6,639,270	-	6,639,270
Buildings	8,052,341	-	8,052,341
Building improvements	3,832,287	-	3,832,287
Construction in progress	4,195,259	6,819,428	11,014,687
Site improvements	1,435,093	-	1,435,093
Bus shelters	1,149,013	-	1,149,013
Vehicles	149,332	39,332	188,664
Furniture and equipment	552,488	-	552,488
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	7,928,695
Equity in local properties	-	2,893,643	2,893,643
Less: accumulated depreciation and amortization	(8,168,665)	(32,184,032)	(40,352,697)
Land, buildings and equipment, net	18,771,130	63,064,229	81,835,359
Total capital assets, net	46,271,193	151,429,292	197,700,485
Total assets	$ 111,734,808	$ 188,051,309	$ 299,786,117

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	$ 4,633,764	$ 1,489,856	$ 6,123,620
Accrued expenses	-	2,116,976	2,116,976
Accrued payroll and benefits	374,009	-	374,009
Accrued interest	23,644	63,248	86,892
Due to other governments	1,925,735	-	1,925,735
Unearned revenue	886,795	935,741	1,822,536
Capital lease - current	-	592,912	592,912
Compensated absences	9,109	24,261	33,370
Retainage payable	-	92,988	92,988
Bond payable - current	200,000	-	200,000
Total current liabilities	8,053,056	5,315,982	13,369,038
Noncurrent Liabilities			
Compensated absences	725,071	145,211	870,282
Capital lease	-	7,674,893	7,674,893
Bond payable, net	2,292,412	-	2,292,412
Total noncurrent liabilities	3,017,483	7,820,104	10,837,587
Total liabilities	11,070,539	13,136,086	24,206,625
Net Position			
Net investment in capital assets	43,778,781	143,161,487	186,940,268
Restricted	37,712,144	5,227,086	42,939,230
Unrestricted	19,173,344	26,526,650	45,699,994
Total net position	100,664,269	174,915,223	275,579,492
Total liabilities and net position	$ 111,734,808	$ 188,051,309	$ 299,786,117

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2014

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax revenues	$ 34,899,261	$ -	$ 34,899,261
Farebox and passenger revenues	11,778,493	19,578,515	31,357,008
Advertising revenue	107,049	-	107,049
Equipment rental and other	-	104,463	104,463
Total operating revenues	46,784,803	19,682,978	66,467,781
Operating Expenses			
Direct transportation	24,234,437	-	24,234,437
Salaries and related benefits	4,807,138	-	4,807,138
Contractual services	21,583,669	-	21,583,669
Other services	933,745	-	933,745
Materials, supplies and minor equipment	1,329,972	-	1,329,972
Fuel	3,476,990	-	3,476,990
Contract operations and maintenance	-	12,219,634	12,219,634
Other operations and maintenance	-	7,859,967	7,859,967
Property leases and access fees	-	7,349,313	7,349,313
Insurance	-	2,107,023	2,107,023
Marketing and sales	-	1,062,134	1,062,134
General and administrative	-	4,046,093	4,046,093
Total operating expenses	56,365,951	34,644,164	91,010,115
Operating loss before depreciation and amortization	(9,581,148)	(14,961,186)	(24,542,334)
Depreciation and amortization	(8,797,924)	(7,353,229)	(16,151,153)
Operating loss	(18,379,072)	(22,314,415)	(40,693,487)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	11,351,325	11,351,325
Commonwealth of Virginia grants	6,740,328	-	6,740,328
Federal grants	19,955,954	-	19,955,954
Investment income	30,333	14,803	45,136
Pass-through grants - member jurisdictions	(1,653)	-	(1,653)
Interest, amortization and other nonoperating expenses, net	(53,232)	(394,738)	(447,970)
Other revenue	373,911	-	373,911
Total nonoperating revenues, net	27,045,641	10,971,390	38,017,031
Capital Grants and Assistance			
Commonwealth of Virginia grants	6,656,317	-	6,656,317
Federal grants	13,287,025	-	13,287,025
Capital contributions	51,640	-	51,640
Contribution to NVTC	-	(10,162,936)	(10,162,936)
Other local contributions	-	1,346,195	1,346,195
Total capital grants and assistance, net	19,994,982	(8,816,741)	11,178,241
Income (loss) before transfers and gain (loss) on disposals of assets and extraordinary item	28,661,551	(20,159,766)	8,501,785
Transfers, net	(21,285,233)	21,285,233	-
Gain (loss) on Disposal of Assets	(238,053)	750	(237,303)
Extraordinary Item	-	(1,830,393)	(1,830,393)
Change in net position	7,138,265	(704,176)	6,434,089
Net Position, beginning	93,526,004	175,619,399	269,145,403
Net Position, ending	$ 100,664,269	$ 174,915,223	$ 275,579,492

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	$ 32,525,297	$ -	$ 32,525,297
Receipts from customers	11,398,236	20,844,012	32,242,248
Receipts from advertising	107,049	-	107,049
Payments to suppliers	(28,082,313)	(30,906,874)	(58,989,187)
Payments to member jurisdictions	(22,963,490)	-	(22,963,490)
Payments to employees	(5,048,928)	(2,800,537)	(7,849,465)
Net cash used in operating activities	(12,064,149)	(12,863,399)	(24,927,548)
Cash Flows from Capital and Related Financing Activities			
Interest payments on revenue bond	(97,322)	-	(97,322)
Principal payments on revenue bond	(195,000)	-	(195,000)
Interest payments on capital leases	-	(399,071)	(399,071)
Principal payments on capital leases	-	(566,607)	(566,607)
Escrow deposit	65,521	-	65,521
Proceeds from sale of assets	191,651	-	191,651
Purchase of buses and related equipment	(7,711,120)	-	(7,711,120)
Acquisition of capital assets	(6,442,120)	(2,874,437)	(9,316,557)
Net cash used in capital and related financing activities	(14,188,390)	(3,840,115)	(18,028,505)
Cash Flows from Noncapital Financing Activities			
Federal and state grants bus and commuter rail services	50,223,780	-	50,223,780
Governmental subsidies	-	15,967,069	15,967,069
Interfund transfers	(22,003,807)	22,003,807	-
Payments for jurisdiction grant - related expenditures	(1,653)	(15,653,215)	(15,654,868)
Net cash provided by noncapital financing activities	28,218,320	22,317,661	50,535,981
Cash Flows From Investing Activities			
Investment income	30,333	14,803	45,136
Other revenues	664,684	-	664,684
Cash provided by investing activities	695,017	14,803	709,820
Increase in cash and cash equivalents	2,660,798	5,628,950	8,289,748
Cash and Cash Equivalents			
Beginning	43,845,283	19,325,021	63,170,304
Ending	$ 46,506,081	$ 24,953,971	$ 71,460,052

(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	$ (18,379,072)	$ (22,314,415)	$ (40,693,487)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	8,797,924	7,353,229	16,151,153
Loss on disposal of assets	-	1,945,039	1,945,039
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	(2,367,460)	-	(2,367,460)
Miscellaneous receivables	162,508	-	162,508
Prepaid expenses and other assets	(1,818)	138,858	137,040
Trade receivables	-	(37,490)	(37,490)
Inventory	-	(33,173)	(33,173)
Increase (decrease) in:			
Accounts payable and other liabilities	(756,119)	(1,819)	(757,938)
Accrued payroll and benefits	(241,790)	-	(241,790)
Due to other governments	1,270,947	-	1,270,947
Unearned revenue	(549,269)	86,372	(462,897)
Net cash used in operating activities	$ (12,064,149)	$ (12,863,399)	$ (24,927,548)
Schedule of Noncash Capital Activities:			
Capital assets acquired through capital contributions	$ 51,640	$ 1,250,000	$ 1,301,640
Capital assets acquired through accounts payable	1,043,501	574,765	1,618,266
Inventory acquired through in-kind contribution	-	30,488	30,488
Capital assets acquired through accrued expenses	-	1,096,839	1,096,839

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.

Note 1. Organization (Continued)

Revenues of PRTC consist principally of a 2.1% motor fuel tax, farebox and passenger revenues, and federal and state grants. The fuel tax revenues represent a sales tax on retail sales of motor vehicle fuel levied by the Commonwealth of Virginia through its Department of 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.

Note 2. Summary of Significant Accounting Policies (Continued)

PRTC reports the following major enterprise funds:

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

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

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

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

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

Restricted assets: Restricted assets represent funds designated for specific purposes. Restricted assets consist of funds invested in a Virginia Tax Free Institutional Fund in accordance with the applicable debt covenants. Funds totaling $2,838,500 were initially received from the PRTC bus sponsoring jurisdictions for several capital related activities. Subsequently, those activities were debt financed, and the $2,838,500 was reprogrammed for other operating and capital expenses. As of June 30, 2014, the balance in this tax free fund was $688,721.

Restricted cash, cash equivalents and investments of $31,004,140 at June 30, 2014 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 $5,227,086 at June 30, 2014 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 $98,580 at June 30, 2014.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Capital assets: Capital assets are stated at historical cost. Capital assets are defined by PRTC as assets with an initial, individual cost of more than $2,500 (Bus Service and Member Jurisdictions Fund) and $5,000 (Commuter Rail Service Fund) with an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

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

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

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.

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

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

Estimates and assumptions: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Cash and Investments

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

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

Note 3. Cash and Investments (Continued)

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

The Commonwealth of Virginia Department of Treasury manages PRTC's Insurance Trust. State statutes govern the portion of assets invested in the Commonwealth's pooled accounts, while the remainder is invested by an external portfolio manager. At June 30, 2014, PRTC had $5,200,597 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, 2014, 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	$ 15,553,000	$ -	$ 15,553,000	$ 15,553,000	$ 15,553,000
LGIP	-	18,009,184	18,009,184	18,009,184	18,009,184
	15,553,000	18,009,184	33,562,184	33,562,184	33,562,184
Restricted:					
Tax free money market	688,721	-	688,721	688,721	688,721
Insurance trust fund - pooled funds	-	5,200,597	5,200,597	5,200,597	5,200,597
LGIP	31,004,140	26,489	31,030,629	31,030,629	31,030,629
	31,692,861	5,227,086	36,919,947	36,919,947	36,919,947
Total	$ 47,245,861	$ 23,236,270	$ 70,482,131	$ 70,482,131	$ 70,482,131

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.

Note 3. Cash and Investments (Continued)

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

Authorized Investments

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

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

Diversification

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

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

2. The Bus Service and Member Jurisdiction Fund investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

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

Note 3. Cash and Investments (Continued)

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

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

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

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

	Bus Service and Member Jurisdictions
Stafford County	$ 7,459,913
Prince William County	12,556,042
City of Manassas	616,537
City of Manassas Park	2,455,701
City of Fredericksburg	4,217,318
Spotsylvania County	3,698,629
	$ 31,004,140

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	$ 5,242,255
Virginia Department of Taxation - motor fuel tax receipts	3,387,744
Virginia Department of Rail and Public Transportation	1,901,099
Federal Transit Administration	14,768,654
Washington Metropolitan Area Transit Authority	747,904
Virginia Department of Transportation	136,346
Northern Virginia Transportation Authority	559,275
Prince William County	4,712
Virginia Retirement System - ICMA	104
City of Manassas	1,890
City of Manassas Park	30
	$ 26,750,013

Amounts due to other governments are as follows:

	Bus Service And Member Jurisdictions
City of Manassas	$ 35,959
Stafford County	1,145,820
City of Fredericksburg	740,216
Virginia Department of Rail and Public Transportation	3,740
	$ 1,925,735

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Increases	Decreases	Transfers	Balance June 30, 2014
Capital assets not being depreciated or amortized:					
Land	$ 1,847,335	$ 4,791,935	$ -	$ -	$ 6,639,270
Construction in progress	7,887,331	6,955,720	(2,811,836)	(1,016,528)	11,014,687
Total capital assets not being depreciated or amortized	9,734,666	11,747,655	(2,811,836)	(1,016,528)	17,653,957
Capital assets being depreciated and amortized:					
Buses and related equipment	68,684,567	8,754,621	(2,807,354)	-	74,631,834
Rail rolling stock	114,468,418	-	-	-	114,468,418
Buildings	8,052,341	-	-	-	8,052,341
Building improvements	3,791,600	60,681	(24,470)	4,476	3,832,287
Site improvements	1,435,093	-	-	-	1,435,093
Bus shelters	1,088,805	45,739	(28,158)	42,627	1,149,013
Vehicles	159,428	40,570	(11,334)	-	188,664
Furniture and equipment	526,928	53,211	(27,651)	-	552,488
Software and easement	865,367	69,345	-	-	934,712
Facilities	50,954,532	-	-	270,448	51,224,980
Track and signal improvements	26,342,183	-	-	-	26,342,183
Furniture, equipment and software	7,197,749	31,969	-	698,977	7,928,695
Equity in local properties	2,893,643	-	-	-	2,893,643
Total capital assets being depreciated and amortized	286,460,654	9,056,136	(2,898,967)	1,016,528	293,634,351
Less accumulated depreciation and amortization for:					
Buses and related equipment	41,764,987	7,929,557	(2,562,773)	-	47,131,771
Rail rolling stock	21,642,543	4,460,812	-	-	26,103,355
Buildings	4,158,924	268,512	-	-	4,427,436
Building improvements	1,107,970	238,185	(24,470)	-	1,321,685
Site improvements	278,964	79,590	-	-	358,554
Bus shelters	825,620	120,861	(23,913)	-	922,568
Vehicles	138,570	22,739	(11,334)	-	149,975
Furniture and equipment	368,805	39,354	(26,271)	-	381,888
Software and easement	535,307	105,080	-	-	640,387
Facilities	13,169,957	1,513,210	-	-	14,683,167
Track and signal improvements	8,929,249	894,867	-	-	9,824,116
Furniture, equipment and software	5,685,997	393,437	-	-	6,079,434
Equity in local properties	1,478,538	84,949	-	-	1,563,487
Total accumulated depreciation and amortization	100,085,431	16,151,153	(2,648,761)	-	113,587,823
Total capital assets being depreciated and amortized, net	186,375,223	(7,095,017)	(250,206)	1,016,528	180,046,528
Total capital assets, net	$ 196,109,889	$ 4,652,638	$ (3,062,042)	$ -	$ 197,700,485

Note 5. Capital Assets (Continued)

During the current fiscal year, projects previously reported as construction in process totaling approximately $2.8 million were expensed. Of that amount, $1.8 million related to the Cherry Hill track project (recorded as an extraordinary item) written off due to the Virginia Department of Rail and Public Transportation assuming responsibility for the project. The remaining $0.97 million related to capitalized costs reclassified to operating expenses.

Note 6. Long-Term Liabilities

Revenue Bond

$2,335,000, Series 2012 Revenue Bond, due in annual installments of $200,000 to $285,000 through October 2022, plus interest at 2.83% to 4.83%	$ 2,140,000

Mandatory debt service requirements consist of the following:

Year Ending June 30,	Principal	Interest	Total Required
2015	$ 200,000	$ 91,751	$ 291,751
2016	205,000	85,297	290,297
2017	215,000	76,809	291,809
2018	225,000	66,884	291,884
2019	230,000	56,575	286,575
2020-2023	1,065,000	105,947	1,170,947
	$ 2,140,000	$ 483,263	$ 2,623,263

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 $19,678,138 (PRTC reporting entity, $9,839,069)	$ 16,535,611	$ 8,267,805

Note 6. Long-Term Liabilities (Continued)

Future minimum lease payments as of June 30, 2014 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2015	$ 1,931,357	$ 965,679
2016	1,931,357	965,679
2017	1,931,357	965,678
2018	1,931,357	965,678
2019	1,931,357	965,678
2020-2024	9,656,785	4,828,393
2025	1,931,357	965,678
Total minimum lease payments	21,244,927	10,622,463
Lease amount representing interest	4,709,316	2,354,658
Present value of lease payments	$ 16,535,611	$ 8,267,805

The following is a summary of long-term liability activity for the year ended June 30, 2014:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bond	$ 2,335,000	$ -	$ (195,000)	$ 2,140,000	$ 200,000
Unamortized premium	395,129	-	(42,717)	352,412	-
Capital leases	8,834,412	-	(566,607)	8,267,805	592,912
	$ 11,564,541	$ -	$ (804,324)	$ 10,760,217	$ 792,912

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, 2014:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash and investments	$ 31,004,140	$ -	$ 31,004,140
Due from other governments, net	6,708,004	-	6,708,004
Cash and investments - insurance trust fund	-	5,200,597	5,200,597
Cash and investments - grants and contributions	-	26,489	26,489
	$ 37,712,144	$ 5,227,086	$ 42,939,230

Note 7. Net Position (Continued)

Unrestricted net position consists of the following as of June 30, 2014:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support next year budget	$ 5,200,000	$ -	$ 5,200,000
Local match for state grants	1,481,173	-	1,481,173
Total designations	6,681,173	-	6,681,173
Undesignated unrestricted net position	12,492,171	26,526,650	39,018,821
Total unrestricted net position	$ 19,173,344	$ 26,526,650	$ 45,699,994

Note 8. Joint Venture - Virginia Railway Express

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

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

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

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

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. Spotsylvania County’s share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2012 was deferred until 60 days after the beginning of fiscal year 2013, at which time Spotsylvania paid the deferral.

In July 2007, the Commissions adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions and provided for board representation proportionate to system ridership, and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the former 90% system ridership and 10% population formula. The amendment to the subsidy formula was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

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

Financial information from VRE's fiscal year 2014 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS
STATEMENT OF NET POSITION
June 30, 2014

ASSETS		
Current Assets		
Cash and cash equivalents	$	37,374,578
Accounts receivable:		
Due from PRTC – funded by FTA		9,201,817
Commonwealth of Virginia grants		5,168,385
Trade and other, net of allowance		1,707,492
Inventory		3,639,352
Prepaid expenses and other		171,896
Restricted cash, cash equivalents, and investments		17,185,337
Total current assets		74,448,857
Capital assets (net of $116,574,773 accumulated depreciation and amortization)		302,858,587
Total capital assets, net		302,858,587
Total assets	$	377,307,444
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued liabilities	$	8,056,185
Unearned revenue		1,772,855
Contract retainage		185,977
Current portion of:		
Capital lease obligations		1,185,825
Long-term debt		6,555,000
Notes payable		1,988,724
Total current liabilities		19,744,566
Noncurrent Liabilities		
Capital lease obligations		15,349,786
Notes payable		57,709,856
Compensated absences		275,117
Total noncurrent liabilities		73,334,759
Total liabilities		93,079,325
Net Position		
Net investment in capital assets		220,069,396
Restricted for liability insurance plan		10,454,171
Restricted for debt service and capital lease		6,731,166
Unrestricted assets		46,973,386
Total net position		284,228,119
Total liabilities and net position	$	377,307,444

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

VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2014

Operating revenues	$ 37,291,391
Operating expenses	65,764,181
Operating loss before depreciation and amortization	(28,472,790)
Depreciation and amortization	(14,706,458)
Operating loss	(43,179,248)
Nonoperating revenues (expenses):	
Subsidies:	
Commonwealth of Virginia grants	19,330,105
Federal grants – with PRTC as grantee	15,931,876
Jurisdictional contributions	16,428,800
Interest income:	
Operating funds	27,860
Other restricted funds	196
Gain on disposal of assets	1,500
Interest, amortization and other nonoperating expenses, net	(4,026,724)
Total nonoperating revenues, net	47,693,613
Capital grants and assistance:	
Commonwealth of Virginia grants	2,464,628
Federal grants – with PRTC as grantee	5,420,552
Other local contributions	2,637,809
Total capital grants and assistance	10,522,989
Extraordinary item	(3,660,786)
Change in net position	11,376,568
Net position, beginning	272,851,551
Net position, ending	$ 284,228,119

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, 2014, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	$ 11,351,325
Other jurisdictional projects	12,883,112
	$ 24,234,437

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 $213,400 at June 30, 2014, of which $106,700 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 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, 2014 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1	$ 10,241,951	$ 5,120,975
Contribution to reserves	4,150,000	2,075,000
Insurance premiums paid	(3,925,246)	(1,962,623)
Claims mitigation costs and losses incurred	(10,049)	(5,025)
Actuarial and administrative charges	(55,462)	(27,730)
Ending balance, June 30	$ 10,401,194	$ 5,200,597

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, 2014, 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, 2014 were $20,450.

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, 2014 were $43,434.

Note 13. Pension Plan

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

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

Administering Entity: Virginia Retirement System (System)

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

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About VRS Plan 2** VRS 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 VRS 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 VRS Plan 1 and VRS 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)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**Eligible Members** Employees are in VRS 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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014
Hybrid Opt-In Election VRS 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 VRS 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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	**Hybrid Opt-In Election** VRS 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 VRS 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and 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** Same as VRS Plan 1.	**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 VRS 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 Contributions 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)

VRS PLAN 1	VRS 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 VRS Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** 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. VRS Plan 1 or VRS 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. **<u>Defined Contributions Component:</u>** 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)

VRS PLAN 1	VRS 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 VRS Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under VRS Plan 1 **<u>Defined Contribution Component:</u>** 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 VRS 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 1.7%.	**Service Retirement Multiplier** Same as Plan1 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** The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS 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** **<u>Defined Benefit Component:</u>** Same as VRS Plan 2. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at 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** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach 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:** Members are eligible for an unreduced retirement benefit when they reach 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 Members may retire with a reduced benefit as early as 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** Members may retire with a reduced benefit as early as 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.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Not applicable.
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.	**Eligibility:** Same as VRS Plan 1	**Eligibility:** Same as VRS Plan 1 and VRS Plan 2.
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 VRS Plan 1	**Exceptions to COLA Effective Dates:** Same as VRS Plan 1 and VRS Plan 2.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. 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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
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 VRS Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as VRS Plan 1. **Defined Contribution Component:** Not applicable.

The System issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at http://www.varetire.org/pdf/publications/2013-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13. Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00 percent member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00 percent member contribution. This could be phased in over a period 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. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Commission's contribution rate for the fiscal year ended June 30, 2014 was 8.04 percent of annual covered payroll and 1.19 percent for group life insurance.

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2014, 2013, and 2012 was as follows:

	2014	2013	2012
Bus Service and Member Jurisdictions	$ 3,572,975	$ 3,105,402	$ 2,740,101
Commuter Rail Service	3,612,007	3,359,519	3,151,446

Total payroll for the years ended June 30, 2014, 2013, and 2012 was as follows:

	2014	2013	2012
Bus Service and Member Jurisdictions	$ 3,621,056	$ 3,507,845	$ 3,064,189
Commuter Rail Service	3,649,660	3,911,919	3,358,745

C. Annual Pension Cost

For fiscal year 2014, PRTC's annual pension cost of $528,177 was equal to the required and actual contributions.

Three-Year Trend Information for PRTC

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 643,357	100.0%	$ -
June 30, 2013	519,780	100.0%	-
June 30, 2014	528,177	100.0%	-

Note 13. Pension Plan (Continued)

C. Annual Pension Cost (Continued)

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00 percent, (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and (c) a cost-of-living adjustment of 2.50 percent per year for Plan1 employees and 2.25 percent for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 89.54 percent funded. The actuarial accrued liability for benefits was $11,021,316 and the actuarial value of assets was $9,868,961, resulting in an unfunded actuarial accrued liability (UAAL) of $1,152,355. The covered payroll (annual payroll of active employees covered by the plan) was $6,392,730, and ratio of the UAAL to the covered payroll was 18.03 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 14. Contingencies and Contractual Commitments

<u>Fuel Contractual Commitments</u>

PRTC entered into contracts at various times in November 2013 through June 2014 to purchase fuel at set prices for delivery in July 2014 through April 2015. The total commitment is for 588,000 gallons of fuel at approximately $1.7 million. The fuel will be used in the normal course of business and is not being purchased for resale.

Note 14. Contingencies and Contractual Commitments (Continued)

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, 2014, 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, 2014:

Stations and parking lots	$ 7,352,426
Rail rolling stock	37,518,680
Maintenance and layover yards	279,557
Track and signal improvements	20,802,010
Other administrative	3,569,124
Total	$ 69,521,797

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, 2014, annual track usage fees totaled approximately $8,243,800, of which $4,369,000 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately $507,000, of which $269,000 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, 2014 was approximately $5,516,000, of which $2,923,000 was recognized by the PRTC reporting entity. Costs in future years will be adjusted based on changes to various published costs indices and the number of trains that have access to and are stored and serviced at the terminal. A new agreement will be in effect for the period beginning July 1, 2015.

Note 15. Operating Leases (Continued)

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, 2014, based on an annual budget prepared in advance, was approximately $18,361,000 of which $9,731,000 is recognized by the PRTC reporting entity. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index. A new contract will be in effect for the period beginning July 1, 2015.

Note 16. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	**Total Transferred Out**
Transfer from fund:			
Bus Service and Member Jurisdictions	$ -	$ 21,352,428	$ 21,352,428
Commuter Rail Service	(67,195)	-	(67,195)
Total transferred in	$ (67,195)	$ 21,352,428	$ 21,285,233

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. Pending GASB Statements

At June 30, 2014, 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. 68, *Accounting and Financial Reporting for Pensions,* will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68,* requires a state or local government employer (or nonemployer contributing entity in a special funding situation), to recognize a net pension liability measured as of a date (the measurement date), no earlier than the end of its prior fiscal year. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

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

Note 18. Subsequent Events

PRTC entered into contracts during July 2014 through December 2014 to purchase fuel at set prices for delivery in November 2014 through December 2016. The total commitment is for 1,596,000 gallons of fuel at approximately $4.7 million. 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 2014 through September 2014 to purchase fuel at set prices for delivery in July 2014 through June 2015. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 882,000 gallons of fuel at a cost of approximately $2.7 million.

In June 2014, the VRE Operations Board recommended the Commissions forward to the jurisdictions an amendment to the Master Agreement for the Provision of Commuter Rail Service by the Commissions and Participating and Contributing Jurisdictions in order to comply with HB 2152 passed by the Virginia State Legislature in February 2013. HB 2152, as later amended by HB 957 in February 2014, requires a weighted vote on the VRE Operations Board for the Chairman of the Commonwealth Transportation Board or his designee effective July 1, 2015. The Commissions forwarded the proposed amendment to the jurisdictions in July 2014 for their approval and execution.

In August and September of 2014, six legacy Gallery railcars were sold to Chicago Metro for $500 each or a total of $3,000. The sale was approved by the Commissions in July 2014, following the recommendation of the Operations Board in June 2014. These railcars have been replaced in VRE service by new Gallery railcars.

In October 2014, the Commissions authorized the Chief Executive Officer of VRE to amend the contract with Sumitomo Corporation of America to place an order for five additional Gallery railcars and to increase the contract value by $10.5 million, following the recommendation of the Operations Board in September 2014.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF FUNDING PROGRESS - VRS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2013	$ 9,868,961	$ 11,021,316	$ 1,152,355	89.54%	$ 6,392,730	18.03%
June 30, 2012	8,783,862	10,544,864	1,761,002	83.30%	6,045,347	29.13%
June 30, 2011	8,237,980	9,730,413	1,492,433	84.66%	5,751,116	25.95%

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - BUS SERVICE AND MEMBER JURISDICTIONS
June 30, 2014 and 2013

ASSETS	**2014**	2013
Current Assets		
Cash and investments in bank	**$ 15,501,941**	$ 9,525,052
Receivables:		
Due from other governments	**26,750,013**	27,724,215
Due from Commuter Rail Service Fund	**468,826**	874,502
Miscellaneous	**92,058**	261,198
Prepaid expenses and other assets	**159,733**	223,436
Restricted assets:		
Cash and investments in pooled funds - member jurisdictions	**31,004,140**	34,320,231
Tax free money market	**688,721**	748,297
Total current assets	**74,665,432**	73,676,931
Capital assets:		
Transportation equipment:		
Buses and related equipment	**74,631,834**	68,684,567
Less: accumulated depreciation	**(47,131,771)**	(41,764,987)
Transportation equipment, net	**27,500,063**	26,919,580
Land, buildings, and equipment:		
Land	**6,639,270**	1,847,335
Buildings	**8,052,341**	8,052,341
Building improvements	**3,832,287**	3,791,600
Construction in progress	**4,195,259**	2,824,767
Site improvements	**1,435,093**	1,435,093
Bus shelters	**1,149,013**	1,088,805
Vehicles	**149,332**	109,512
Furniture and equipment	**552,488**	526,928
Software and easement	**934,712**	865,367
Less: accumulated depreciation and amortization	**(8,168,665)**	(7,374,953)
Land, buildings and equipment, net	**18,771,130**	13,166,795
Total capital assets, net	**46,271,193**	40,086,375
Total assets	**$ 120,936,625**	$ 113,763,306

LIABILITIES AND NET POSITION	2014	2013
Current Liabilities		
Accounts payable and other liabilities	**$ 4,633,764**	$ 4,856,174
Accrued payroll and benefits	**374,009**	286,313
Accrued interest	**23,644**	25,017
Due to other governments	**1,925,735**	654,788
Due to Commuter Rail Service Fund	**9,201,817**	9,853,196
Unearned revenue	**886,795**	1,173,799
Compensated absences	**9,109**	13,279
Bond payable - current portion	**200,000**	195,000
Total current liabilities	**17,254,873**	17,057,566
Noncurrent Liabilities		
Compensated absences	**725,071**	644,607
Bond payable, net	**2,292,412**	2,535,129
Total noncurrent liabilities	**3,017,483**	3,179,736
Total liabilities	**20,272,356**	20,237,302
Net Position		
Net investment in capital assets	**43,778,781**	37,356,246
Restricted	**37,712,144**	39,925,218
Unrestricted	**19,173,344**	16,244,540
Total net position	**100,664,269**	93,526,004
Total liabilities and net position	**$ 120,936,625**	$ 113,763,306

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUS SERVICE AND MEMBER JURISDICTIONS
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Motor fuel tax revenues	**$ 34,899,261**	$ 31,608,825
Farebox revenues	**11,778,493**	10,524,404
Advertising revenue	**107,049**	149,067
Total operating revenues	**46,784,803**	42,282,296
Operating Expenses		
Direct transportation	**24,234,437**	17,990,062
Salaries and related benefits	**4,807,138**	4,655,382
Contractual services	**21,583,669**	19,259,848
Other services	**933,745**	582,146
Materials, supplies and minor equipment	**1,329,972**	989,894
Fuel	**3,476,990**	3,646,171
Total operating expenses	**56,365,951**	47,123,503
Operating loss before depreciation and amortization	**(9,581,148)**	(4,841,207)
Depreciation and amortization	**(8,797,924)**	(8,419,484)
Operating loss	**(18,379,072)**	(13,260,691)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	**6,740,328**	5,680,399
Federal grants	**19,955,954**	22,146,902
Investment income	**30,333**	45,643
Pass-through grants - member jurisdictions	**(1,653)**	(1,652)
Interest expense	**(53,232)**	(57,532)
Other revenue	**373,911**	196,179
Total nonoperating revenues, net	**27,045,641**	28,009,939
Capital Grants and Assistance		
Commonwealth of Virginia grants	**6,656,317**	2,360,624
Federal grants	**13,287,025**	10,763,763
Capital contributions	**51,640**	7,469
Total capital grants and assistance	**19,994,982**	13,131,856
Income before transfers and gain (loss) on disposal of assets	**28,661,551**	27,881,104
Transfers In	**67,195**	70,657
Transfers Out	**(21,352,428)**	(19,843,677)
Transfers, net	**(21,285,233)**	(19,773,020)
Gain (loss) on Disposal of Assets	**(238,053)**	160,731
Change in net position	**7,138,265**	8,268,815
Net Position, beginning	**93,526,004**	85,257,189
Net Position, ending	**$ 100,664,269**	$ 93,526,004

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION - COMMUTER RAIL SERVICE
June 30, 2014 and 2013

ASSETS	**2014**	2013
Current Assets		
Cash and investments in bank	**$ 19,726,885**	$ 14,107,449
Receivables:		
Due from Bus Service and Member Jurisdictions Fund	**9,201,817**	9,853,196
Trade receivables, net of allowance for doubtful accounts	**863,676**	944,626
Miscellaneous	**59,743**	89,886
Inventory	**1,920,907**	2,121,666
Prepaid expenses and other assets	**90,729**	265,431
Restricted cash, cash equivalents and investments	**5,227,086**	5,217,572
Total current assets	**37,090,843**	32,599,826
Capital assets:		
Transportation equipment:		
Rail rolling stock	**114,468,418**	114,468,418
Less: accumulated depreciation	**(26,103,355)**	(21,642,543)
Transportation equipment, net	**88,365,063**	92,825,875
Buildings and equipment:		
Construction in progress	**6,819,428**	5,062,564
Vehicles	**39,332**	49,916
Furniture, equipment and software	**7,928,695**	7,197,749
Equity in local properties	**2,893,643**	2,893,643
Facilities	**51,224,980**	50,954,532
Track and signal improvements	**26,342,183**	26,342,183
Less: accumulated depreciation and amortization	**(32,184,032)**	(29,302,948)
Buildings and equipment, net	**63,064,229**	63,197,639
Total capital assets, net	**151,429,292**	156,023,514
Total assets	**$ 188,520,135**	$ 188,623,340

LIABILITIES AND NET POSITION	**2014**	2013
Current Liabilities		
Accounts payable and other liabilities	**$ 1,489,856**	$ 1,054,061
Accrued expenses	**2,116,976**	1,002,680
Due to Bus Service and Member Jurisdictions Fund	**468,826**	874,502
Unearned revenue	**935,741**	971,132
Capital lease	**592,912**	566,607
Interest payable - capital lease	**63,248**	67,583
Retainage payable	**92,988**	14,649
Compensated absences	**24,261**	19,905
Total current liabilities	**5,784,808**	4,571,119
Noncurrent Liabilities		
Compensated absences	**145,211**	165,017
Capital lease	**7,674,893**	8,267,805
Total noncurrent liabilities	**7,820,104**	8,432,822
Total liabilities	**13,604,912**	13,003,941
Net Position		
Net investment in capital assets	**143,161,487**	147,189,101
Restricted for liability insurance plan	**5,227,086**	5,147,437
Restricted grants and contributions	**-**	70,135
Unrestricted	**26,526,650**	23,212,726
Total net position	**174,915,223**	175,619,399
Total liabilities and net position	**$ 188,520,135**	$ 188,623,340

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - COMMUTER RAIL SERVICE
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Passenger revenues	**$ 19,578,515**	$ 20,960,802
Equipment rental and other	**104,463**	144,462
Total operating revenues	**19,682,978**	21,105,264
Operating Expenses		
Contract operations and maintenance	**12,219,634**	13,126,630
Other operations and maintenance	**7,859,967**	7,715,651
Property leases and access fees	**7,349,313**	8,149,434
Insurance	**2,107,023**	2,427,248
Marketing and sales	**1,062,134**	1,059,155
General and administrative	**4,046,093**	4,094,250
Total operating expenses	**34,644,164**	36,572,368
Operating loss before depreciation and amortization	**(14,961,186)**	(15,467,104)
Depreciation and amortization	**(7,353,229)**	(7,232,722)
Operating loss	**(22,314,415)**	(22,699,826)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	**11,351,325**	11,587,744
Investment income	**14,803**	11,594
Interest, amortization and other nonoperating expenses, net	**(394,738)**	(420,067)
Total nonoperating revenues, net	**10,971,390**	11,179,271
Capital Grants and Assistance		
Contribution to NVTC	**(10,162,936)**	(12,511,338)
Other local contributions	**1,346,195**	142,672
Total capital grants and assistance, net	**(8,816,741)**	(12,368,666)
Loss before transfers and loss on disposals	**(20,159,766)**	(23,889,221)
Transfers Out	**(67,195)**	(70,657)
Transfers In	**21,352,428**	19,843,677
Transfers, net	**21,285,233**	19,773,020
Gain (loss) on Disposal of Assets	**750**	(384,521)
Extraordinary Item	**(1,830,393)**	-
Change in net position	**(704,176)**	(4,500,722)
Net Position, beginning	**175,619,399**	180,120,121
Net Position, ending	**$ 174,915,223**	$ 175,619,399

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS
Year Ended June 30, 2014

	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, 2013	$ 5,390,349	$ 417,737	$ 3,257,269	$ 17,442,576	$ 8,687,748	$ 4,729,539	$ 39,925,218
Funds Received:							
Motor fuel tax	2,138,616	1,505,494	908,208	15,989,842	4,946,890	9,410,211	34,899,261
Transfer from PRTC (carryforward)	4,726	17,812	12,690	2,138,399	12,633	13,740	2,200,000
Other	-	157,713	-	-	-	-	157,713
Interest	4,597	599	2,827	10,207	6,965	3,694	28,889
Total funds received	2,147,939	1,681,618	923,725	18,138,448	4,966,488	9,427,645	37,285,863
Funds Disbursed:							
Direct transportation expenses:							
VRE operating and capital	427,728	757,804	574,709	5,748,203	2,529,281	1,313,600	11,351,325
Other projects	3,273,726	216,255	815,629	-	3,892,615	4,684,887	12,883,112
Transfers to PRTC:							
Administrative	24,800	16,000	18,900	285,800	89,700	81,900	517,100
OmniRide, OmniLink, Capital Improvement, Marketing	1,000	268,400	197,100	14,273,900	3,700	3,300	14,747,400
Total funds disbursed	3,727,254	1,258,459	1,606,338	20,307,903	6,515,296	6,083,687	39,498,937
Funds Available - June 30, 2014	$ 3,811,034	$ 840,896	$ 2,574,656	$ 15,273,121	$ 7,138,940	$ 8,073,497	$ 37,712,144

Note 1 - The schedule of member jurisdictions' funds is prepared on an accrual basis and reflects the funds held by the Potomac and Rappahannock Transportation Commission (PRTC) for the benefit of the various member jurisdictions and the activity for the year ended June 30, 2014. Total funds available reconcile to amounts reported on the Statement of Net Position as follows:

Cash and investments in pooled funds - member jurisdictions	$ 31,004,140
Due from other governments - Motor fuel tax revenue receipts	8,629,999
Due to other governments - member jurisdictions	(1,921,995)
	$ 37,712,144

Note 2 - Expenses for other jurisdictional projects consist of:

	City of Fredericksburg	City of Manassas	City of Manassas Park	County of Prince William	County of Stafford	County of Spotsylvania	Total
Road improvements/maintenance, sidewalks	$ 1,225,000	$ (106,454)	$ 815,629	$ -	$ 3,074,153	$ -	$ 5,008,328
Station, other rail, and garage maintenance	215,376	-	-	-	-	-	215,376
Street signs, human services transportation, airport, bike trails, bus shelters, professional services	90,057	35,958	-	-	157,691	-	283,706
Parking garage debt service, parking leases	641,694	286,751	-	-	-	-	928,445
FRED transit costs	1,101,599	-	-	-	660,771	626,775	2,389,145
Transportation salaries/benefits, debt service	-	-	-	-	-	4,058,112	4,058,112
	$ 3,273,726	$ 216,255	$ 815,629	$ -	$ 3,892,615	$ 4,684,887	$ 12,883,112

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2014

State Granting Agency	State Grant Number	Expenses
Direct Payments:		
Virginia Department of Rail and Public Transportation:		
Formula assistance	72014-38; 72114-38	$ 5,620,716
Ridesharing assistance	71014-11; 72514-08	216,000
Transportation Intern	71213-03	17,218
TMP Bus Services	72513-19; 72513-33; 72514-02; 72514-15	452,357
Vanpool Program	72513-01; 72513-02; 72513-36	274,570
Capital - FY 08	72508-38	300,000
Capital - FY 09	72509-36; 73109-48	163,030
Capital - FY 11	73011-83; 73011-92	78,775
Capital - FY 12	73012-93; 73012-94; 73012-95; 73012-98	64,982
Capital - FY 13	72513-14	14,070
Capital - FY 13	72513-15	220,000
Capital - FY 13	73013-52	520,000
Capital - FY 13	73013-53	137,500
Capital - FY 13	73013-54	6,443
Capital - FY 13	73013-55	1,168
Capital - FY 13	73113-48	140,656
Capital - FY 13	73113-49	312,993
Capital - FY 13	73113-50	83,708
Capital - FY 13	73113-51	159,978
Capital - FY 13	73113-52	3,356,186
Capital - FY 13	73113-53	16
Capital - FY 13	73113-54	2,376
Capital - FY 13	73113-56	54,760
Capital - FY 13	73113-58	9,157
Capital - FY 13	73113-59	13,434
Capital - FY 13	73113-60	31,856
Capital - FY 14	72514-09	7,713
Capital - FY 14	73014-78	31,488
Capital - FY 14	73014-79	123,849
Capital - FY 14	73014-81	71,543
Capital - FY 14	73014-82	41,758
Capital - FY 14	73014-83	12,514
Capital - FY 14	73014-84	71,500
Capital - FY 14	73014-85	85
Capital - FY 14	73014-86	1,637
Capital - FY 14	73014-87	22,846
Capital - FY 14	73014-93	226,600
Capital - FY 14	73114-75	32,394
		12,895,876
Northern Virginia Transportation Authority (NVTA)		559,275
Passthrough Payments:		
Prince William County:		
Travel Training		2,302
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)		13,157
Total State Awards Expended		$ 13,470,610

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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-04-0043		20.500	$ 1,475,208
VA-04-0057		20.500	2,600,000
VA-05-0048		20.500	357,715
VA-90-X401		20.507	218,206
VA-90-XXXX (Pending)		20.507	3,259,199
VA-95-X046		20.507	2,563,033
VA-95-X109		20.507	56,280
VA-95-X134 (Pending)		20.507	340,469
VA-95-XXXX (Pending)		20.507	270,852
VA-96-X009 ARRA		20.507	44,020
VA-05-0038		20.500	33,415
VA-05-0048		20.500	3,832,912
VA-90-X232		20.507	83,904
VA-90-X269		20.507	203,532
VA-90-X307		20.507	10,514
VA-90-X352		20.507	10,576
VA-90-X368		20.507	414,712
VA-90-X401		20.507	2,932,672
VA-95-X017		20.507	2,240
VA-95-X046		20.507	2,026,505
VA-95-X059		20.507	3,619,307
VA-95-X137		20.507	5,897,074
TBD		20.500	2,185,182
			32,437,527
Passthrough Payments:			
Prince William County:			
Travel Training	VA-57-X002-04	20.521	9,693
Metropolitan Washington Council of Governments:			
TIGER	DC-78-0001	20.932	643,251
Virginia Department of Transportation:			
Congestion Mitigation & Air Quality (Employer Outreach)	CM-96A-9-084	20.205	52,625
Virginia Department of Transportation	5A01(236)	20.205	99,883
Total Federal Awards Expended			$ 33,242,979

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

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

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

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the "Schedule of Expenditures of Federal Awards."

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

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

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

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

Note 2. Relationship to the Basic Financial Statements

For fiscal year 2014, the Commission recognized amounts in the Schedule of Expenditures of Federal Awards (SEFA) associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current year, $166,885 of prior year expenditures related to the Federal Transit Cluster (CFDA #20.500 and #20.507) were included in the SEFA.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the business-type activities of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility 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 deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as item 2014-01 to be a material weakness and item 2014-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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
December 19, 2014

PBMares

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, 2014. 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, 2014.

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
December 19, 2014

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 (including ARRA Funds)

Dollar threshold used to distinguish between type A and type B programs: $997,289

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

II. FINANCIAL STATEMENT FINDINGS

2014-01: Material Weakness Related to Administrative Rights to Accounting System (MUNIS)

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

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

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

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

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

PBMares performed an IT review of MUNIS user access to provide recommendations/suggestions about how user access can be modified to enhance the control environment. Management is in the process of reviewing the draft report. Management will have follow-up discussions with PBMares before a final report is issued. Management will decide which recommendations to implement, taking into consideration business practice realities. Access rights for each job function will be adjusted accordingly, and fully documented. Documentation will include a MUNIS generated report that lists roles, assigned users, and user permissions. Estimated completion date for addressing/resolving this finding is by the end of fiscal year 2015.

2014-02: Significant Deficiency Related to Filing of Grant Reimbursement Requests and Recording of Grant Revenue

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

II. FINANCIAL STATEMENT FINDINGS (Continued)

Condition: During the course of our audit, the Commission failed to prepare and submit reimbursement requests to the Department of Rail and Public Transportation and the Federal Transit Administration for eligible expenditures on a timely basis. Revenue associated with State and Federal funding was not recorded in the general ledger timely for a majority of the fiscal year. In February, the Commission was able to file numerous reimbursement requests related to State and Federal funding in an effort to bring funding levels to a current status. Since February, the Commission has been substantially able to maintain levels of grant activity and submission for reimbursement on a timely basis.

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

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

Corrective Action Taken or Planned: Management agrees that timely grant reimbursement requests and the recording of revenues associated with grant funding is imperative.

For bus service related grants, federal and state revenue accruals are recorded on a monthly basis to match expenditures. The recording of accruals will occur within seven (7) days following the cut off for recording accounts payable invoices. Grant reimbursement requests will be processed during the first week of the following month. The recording of grant reimbursement requests and revenue accrual reversals will be posted to the general ledger within seven (7) days after the reimbursement requests are submitted. These more standardized processing timeframes will be implemented with January 2015 eligible grant expenditures, with accruals completed in February, grant reimbursements processed during the first week of March 2015, and invoices and reversal of revenue accruals completed the following week. At the end of each fiscal year (June 30), timelines are extended to allow sufficient time to properly record revenues and expenditures to the proper fiscal year.

For rail service related grants, PRTC and VRE implemented new processes to record quarterly accruals instead of just annually at fiscal yearend. PRTC and VRE will regularly monitor outstanding quarterly accruals for timely grant reimbursement requests and status of any outstanding revenue accruals.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

Identifying Number: 13-01

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.

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

Identifying Number: 13-02

Finding:

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

Corrective Action Taken or Planned:

Management agrees that individuals should only have access rights to the accounting system that correlate Management agrees that timely grant reimbursement requests and the recording of revenues associated with grant funding is imperative. The implementation of the MUNIS General Billing module was finalized after the end of fiscal year 2013, modifying the original recording process established during go-live.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

Identifying Number: 13-03

Finding:

There is a significant deficiency in internal control over reconciliation of cash account.

Corrective Action Taken or Planned:

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