

**INTERSTATE COMMISSION ON
THE POTOMAC RIVER BASIN
Rockville, Maryland**

**FINANCIAL STATEMENTS
September 30, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Interstate Commission on the Potomac River Basin
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying statement of net position, and the related statements of revenues, expenses and changes in net position, and cash flows of the Interstate Commission on the Potomac River Basin (the Commission), as of and for the year ended September 30, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Commission on the Potomac River Basin as of September 30, 2016, and the changes in financial position and its cash flows 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 that the Management's Discussion and Analysis on pages 4 through 8 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 an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The supporting schedules on pages 23-25 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were 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 supporting schedules 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 March 17, 2017, 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 result 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 Commission's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Calverton, Maryland

March 17, 2017

**INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2016**

Introduction

Our discussion and analysis provides an overview of the financial performance of the Interstate Commission on the Potomac River Basin's (the Commission or ICPRB) activities for the fiscal year ended September 30, 2016.

Financial Highlights

- Total operating revenues increased by approximately \$160,000, from the prior year.
- One jurisdiction was unable to make full membership payments during FY 2016.
- The Federal government did not make a direct appropriation to the operations of the Commission during FY 2016.
- Net position increased by approximately \$126,500, during 2016 compared with an increase of \$128,800, in the prior year.
- Approximately 61.5% of operating revenues in FY 2016 are from the U.S. Environmental Protection Agency as cost reimbursements through direct grants or as pass through grants from state agencies.
- The Commission's Contingency Reserve funding account was not used during the reporting period.

Using the Commission's Financial Statements

The Interstate Commission on the Potomac River Basin's financial statements as of and for the year ended September 30, 2016, are prepared using the standards of the Governmental Accounting Standards Board, and the reporting model found in Statement Number 34 (GASB-34). Under these standards, the Commission is defined as a special purpose government engaged only in business-type activities as described in Note 1 of the financial statements. There are only three financial statements presented herein. The *Statement of Net Position* reflects a snapshot of the Commission's assets, liabilities, deferred inflows/outflows of resources and net position as of September 30, 2016. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information about the financial activities of the Commission for the fiscal year then ended. The *Statement of Cash Flows* details the sources and uses of cash applicable to the various financial activities of the Commission, and reconciles operating income or (loss) to the cash provided or (used) by these activities. There are several supporting schedules to the above mentioned financial statements presented. These schedules provide additional details about the activities of the Commission.

The use of GASB-34 requires that ICPRB revenues (and expenses) be categorized as "operating" and "non-operating". Significantly, the annual signatory member appropriations are considered to be "non-operating" because the appropriations are not associated with specific project activities. Those member appropriations, however, are mandated in the Compact creating ICPRB and the revenues are essential to Commission operations because they provide ICPRB the flexibility to undertake a base level of activities without additional grants and provide the monies ICPRB uses to meet the frequently imposed cost share requirements of grants. In other words, the member contributions are leveraged to enable larger grant revenues which, in turn, increase the number of activities ICPRB undertakes to fulfill the Compact mandate and mission.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2016

These statements do not address fiduciary funds and activities (for ICPRB, these include a 401K Retirement Plan and a separate Deferred Compensation plan) of which the Commission is the trustee and, as such, cannot use these assets to finance its operations. These funds are invested in VOYA Financial (formerly ING Financial Advisors, LLC), through employee 401K and deferred compensation payroll deductions and ICPRB payments as matching contributions to the 401K Program. An independent, third-party administrator assists with program administration. The individual employee is able to select from multiple investment options and is provided with a minimum of a quarterly report from VOYA Financial. Individuals have access by telephone or by internet to the VOYA financial accounts to manage individual investments in their accounts as frequently as they need or desire within limits allowed by controlling securities laws and regulations. The ICPRB retirement and deferred compensation plans do not constitute long-term obligations for the Commission as they are fully funded by timely additions of employee-funded payroll deductions and the ICPRB matching share contribution of 6.25% of salary. This is a generous contribution that is treated as a fringe benefit for the employee. Its cost to the Commission is recovered as a recognized fringe benefit charge to all grants and projects. The Commission provides current employees with a cost-shared health care coverage and a cost-shared dental insurance plan. Neither plan creates a long-term obligation on the part of the Commission for continued coverage beyond the current period of employment.

Overview of the Commission

The Commission is a quasi-governmental body that is considered to be an agency of its member jurisdictions. It was created in 1940, through an interstate compact, to serve as a water resources management entity by the Commonwealths of Pennsylvania and Virginia, the states of Maryland and West Virginia, the District of Columbia, and the United States. The Compact has been adopted and approved by the United States Congress and was amended in 1970 to add additional functions to the Commission's mandates. The Commission is not a 501(C)(3) non-profit type organization but is an agency of the several States and the District of Columbia, who are signatories to the Compact. It undertakes projects funded from multiple sources to assist in management of the waters of the Potomac River Basin and the Potomac Valley Conservancy District.

The Commission operates with policy guidance and direction established by the three (3) Commissioners (and their alternates) appointed by each member in accordance with jurisdiction statutes and the Compact. The Commission staff, primarily professional and technical experts, operates under the management of an executive director who reports to the Commissioners. The Commission is non-regulatory in nature, and uses science to assist its members in quality and quantity issues of the water and related land resources of the Potomac basin. A strategic plan guides overall Commission operations and each year the Commission adopts a program plan and budget to implement its work in the basin. The 1970 amendment to the Compact authorized creation of separate sections for the "purpose of dealing with the problems of pollution and of water and associated land resources in specific areas which directly affect two or more, but not all, signatory bodies...". One such section, the Section for Cooperative Water Supply Operations on the Potomac (CO-OP), was established by Commission resolution in 1979 to provide administrative, technical, supervisory and managerial services to ensure adequate water supply for the Metropolitan Washington region in the event of drought. This section is funded by assessments provided by the three (3) primary water utilities who serve the region.

**INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2016**

The following analysis focuses on the net position for the denoted fiscal periods.

	September 30,		
	2016	2015	Variance
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 181,425	\$ 428,957	\$ (247,532)
Investments	2,333,633	1,826,800	506,833
Accounts Receivable	223,508	187,478	36,030
Prepaid Expenses	37,826	41,400	(3,574)
TOTAL CURRENT ASSETS	2,776,392	2,484,635	291,757
NON-CURRENT ASSETS	52,719	64,534	(11,815)
TOTAL ASSETS	\$ 2,829,111	\$ 2,549,169	\$ 279,942
TOTAL LIABILITIES	\$ 691,316	\$ 579,364	\$ 111,952
TOTAL DEFERRED INFLOWS OF RESOURCES	81,495	39,971	41,524
NET POSITION			
Net Investment in Capital Assets	30,852	40,723	(9,871)
Unrestricted	2,025,448	1,889,111	136,337
TOTAL NET POSITION	2,056,300	1,929,834	126,466
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 2,829,111	\$ 2,549,169	\$ 279,942

As noted above, net position increased by approximately \$126,500, or 7%, over 2015. That includes an increase of total assets of approximately \$279,900, an increase of total liabilities of approximately \$112,000, and an increase of deferred inflows of resources of approximately \$41,500, which reflects a calculated amount of rent abatement received at the beginning of the lease for office space.

**INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2016**

Our analysis below focuses on the changes in net assets for the denoted fiscal periods.

	For the Year Ended September 30,		
	2016	2015	Variance
OPERATING REVENUES			
Federal Grants and Contracts	\$ 1,170,420	\$ 1,012,063	\$ 158,357
Non-Federal Grants and Contracts	735,616	734,035	1,581
TOTAL OPERATING REVENUES	1,906,036	1,746,098	159,938
NONOPERATING REVENUES			
Member Jurisdiction Contributions	468,475	468,475	-
Investment Income	24,437	10,950	13,487
Miscellaneous Income	3,899	3,858	41
TOTAL NONOPERATING REVENUES	496,811	483,283	13,528
TOTAL REVENUES	2,402,847	2,229,381	173,466
EXPENSES			
Program Expenses	1,555,259	1,433,712	121,547
Management and General Expenses	721,122	666,850	54,272
TOTAL EXPENSES	2,276,381	2,100,562	175,819
INCREASE IN NET POSITION	\$ 126,466	\$ 128,819	\$ (2,353)

Total operating revenues increased by \$160,000 from the prior fiscal year, mostly due to a one-year addition to the on-going EPA Chesapeake Bay program project. Non-operating revenue increased by \$13,528, due to increased investment income. Specific sources of revenue for FY 2016 are listed in Supporting Schedules SS-4, SS-5, and SS-6.

While only 22% of total revenue, the member contributions, as noted earlier, are extremely important to Commission operations as they are used: (a) To provide for core operating expenses of the Commission; (b) to meet cost share requirements of grants, and; (c) to provide flexibility to fund Commission directed activities without depending solely on grants.

Total expenses increased by \$175,900 compared to FY2015. This increase was due mainly to compensation adjustments for staff. Other expense line items increased or decreased generally due to changes in project specific requirements.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2016

The ICPRB budget, prepared annually in connection with a Program Plan by the staff, is approved by the Commission in June for implementation on October 1. It is a planning tool that directs staff and funding resources to specific projects or grants. Changes to the initial budget are normal as additional projects and grants are pursued throughout the course of a year's operations. Amendments to the formal budget take place when new projects are obtained or when cumulative changes are greater than \$20,000.

The Commission amended its budget three times, at the September 2015 and March and August 2016 meetings.

Capital Asset and Long-term Debt Activity

During fiscal year 2016, ICPRB acquired \$9,005 in fixed assets and also disposed of assets valued (purchase price) at \$15,838 that were obsolete or non-functional. The majority of both acquisitions and disposals were computers and computing related equipment.

At the end of FY2016, long-term liabilities included unearned deposits of \$358,741 by water authorities for future CO-OP Section work and a capital lease obligation of \$7,766 for a copier. For more detailed information about the Commission's capital assets and long-term obligations, see Notes 4 and 5 to the financial statements.

The Commission's Upcoming Year

In recent years, ICPRB has been successful in managing its expenses consistent with fluctuations in revenue. Looking ahead, the Commission hopes to increase staff by 1-2 positions, as warranted by project income. Increased staff size will better position the Commission to make progress on its Strategic Plan. Restoration of the Federal member contribution will remain a priority as that will greatly improve the Commission's ability to carry out its Strategic Plan.

FINANCIAL STATEMENTS

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
STATEMENT OF NET POSITION
September 30, 2016

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 181,425
Investments	2,333,633
Accounts Receivable, net	
Signatory Contributions, net (SS-1)	12,625
Federal Financial Assistance, (SS-2)	148,407
Special Projects Contracts, (SS-3)	62,476
Prepaid Expenses	37,826
Total Current Assets	<u>2,776,392</u>

NON-CURRENT ASSETS

Furniture and Equipment, Net	38,618
Security Deposit	14,101
Total Noncurrent Assets	<u>52,719</u>

TOTAL ASSETS

\$ 2,829,111

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ 39,431
Accrued Expenses	2,480
Compensated Absences	153,318
Unearned Signatory State Contributions	106,481
Current Portion of Noncurrent Liabilities	2,592
Total Current Liabilities	<u>304,302</u>

LONG-TERM LIABILITIES

Water Authorities CO-OP Deposits	358,741
Unearned Revenues	23,099
Capital Lease Payable	5,174
Total Long-Term Liabilities	<u>387,014</u>
Total Liabilities	<u>691,316</u>

DEFERRED INFLOWS OF RESOURCES

Rent Abatement	<u>81,495</u>
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NET POSITION

Net Investment in Capital Assets	30,852
Unrestricted	<u>2,025,448</u>
Total Net Position	<u>2,056,300</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

\$ 2,829,111

The accompanying notes are an integral part of this financial statement.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended September 30, 2016

OPERATING REVENUES

Grants-Federal (SS-4)	\$ 1,170,420
Grants and Contracts-Non-Federal (SS-5)	735,616
Total operating revenues	<u>1,906,036</u>

OPERATING EXPENSES

Salary	1,477,213
FICA	107,257
Hospitalization and Disability Insurance	98,825
Retirement	85,368
Transit Subsidy	70
Workmen's Compensation	3,912
Rent	228,019
Equipment	2,020
Equipment Maintenance and Rental	29,772
Postage	388
Supplies and Office Expense	39,828
Communications	20,881
Insurance and Bond	7,085
Audit and Accounting	20,220
Travel	28,142
Educational Resources	10,397
Training	3,355
Meeting Expense	11,118
Contracts	63,691
Consultants	18,000
Bad Debt Expense	-
Depreciation Expense	20,820
Total Operating Expenses	<u>2,276,381</u>
Operating Loss	<u>(370,345)</u>

NON-OPERATING REVENUES

Signatory Contributions (SS-6)	468,475
Investment Income	24,437
Miscellaneous Revenue	3,899
Total Nonoperating Revenues	<u>496,811</u>

CHANGE IN NET POSITION	<u>126,466</u>
NET POSITION, BEGINNING OF YEAR	<u>1,929,834</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,056,300</u></u>

The accompanying notes are an integral part of this financial statement.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Receipts from Grants and Contracts	\$ 1,893,105
Payments to Vendors	(641,505)
Payments to Employees	<u>(1,557,006)</u>
Net Cash Used in Operating Activities	<u>(305,406)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Signatory Contributions for Operations	468,475
Excess Deposits from CO-OP Water Authorities	78,845
Other Receipts	<u>3,899</u>
Net Cash Provided by Noncapital Financing Activities	<u>551,219</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(9,005)
Capital Lease Principle Payments	<u>(1,944)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(10,949)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and Dividends	-
Purchases of Investments	(819,488)
Sale of Investments	<u>337,092</u>
Net Cash Used by Investing Activities	<u>(482,396)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	(247,532)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>428,957</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 181,425</u></u>
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**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES**

Operating Loss	\$ (370,345)
Adjustments to Reconcile Net Loss to Net	
Cash Used in Operating Activities:	
Depreciation Expense	20,820
Deferred Rent Abatement	41,524
Effects of Changes in Nonoperating Assets and Liabilities:	
Accounts Receivable	(36,030)
Prepaid Expenses	3,574
Accounts Payable	1,969
Accrued Expenses	24,152
Accrued Compensated Absences	<u>8,930</u>
Net Cash Used in Operating Activities	<u><u>\$ (305,406)</u></u>

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interstate Commission on the Potomac River Basin (the Commission) was established, by an act of Congress on July 11, 1940, later amended September 25, 1970, to protect and enhance the environment of the Potomac Valley Conservancy District as that environment may be related to or affected by the use or abuse of the water and associated land resources.

The Commission's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity

These financial statements present the Commission as a special purpose government engaged only in business-type activities. The Commission Compact authorizes creation of separate "sections" to conduct work when an issue involves more than one jurisdiction, but less than all member bodies. One section has been created - the Section for Cooperative Water Supply Operations on the Potomac (CO-OP). This Section focuses on management of water supply operations serving the greater metropolitan Washington region during drought periods. In accordance with the Compact, the members of the CO-OP are responsible for the separate funding of the Section and the members have worked with the metropolitan area water suppliers who provide the funds for the Section staffing and other resources and requirements. During the fiscal year ended September 30, 2016, the CO-OP Section received \$342,709 in cash from the water suppliers while providing \$415,931 worth of services. Unearned CO-OP revenues at September 30, 2015 were \$358,741, amounts included in the liability amounts are shown below:

	Amount
Cash	53,490
Investments	368,343
Fixed Assets	3,914
Less: Interfund Receivables	67,006
Total	<u>\$ 358,741</u>

Measurement Focus and Basis of Accounting

The Commission utilizes the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for special-purpose governments engaged in business type activities. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Signatory contributions are recorded as revenue in the period covered by the contribution as stipulated by the jurisdiction. Grants and service contracts are recognized as revenue upon the execution of the contract for the period the contract falls within ICPRB's fiscal year, and the expenditure of reimbursable costs. Expenditures are recognized in the accounting period in which the liability is incurred. Fiduciary funds and activities are not included in these financial statements.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The Commission prepares its financial statements in conformity with generally accepted accounting principles, which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Operating and Non-operating Revenues

The Commission defines all federal and state grants, contracts and memorandums of understanding as operating revenues of services performed or provided. Revenues from capital grants, signatory state contributions, investment income, donations, and miscellaneous sales of publications are defined as non-operating revenue.

Budgetary Data

Formal budgetary accounting is employed as a management control for the funds of the Commission. Annual operating budgets are adopted each fiscal year through passage of an annual budget and amended quarterly as required; however, the budget is not legally required. Budgetary control is exercised at the commissioner's level, with the exception of the executive director, who is authorized to adjust budget items in amounts not to exceed \$20,000 per year.

Cash and Cash Equivalents

The Commission has defined cash and cash equivalents to include cash on hand, demand deposits, and money market funds. The Commission considers all investments purchased with an initial maturity of three months or less to be cash equivalents.

Investments

The Commission categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Following is a description of the valuation methodologies used for assets measured at fair value.

Equity and fixed income securities classified in Level 1 are valued using prices quoted in active markets for those securities

Accounts Receivable

Accounts receivables represent amounts due from governmental agencies for unreimbursed costs and yearly signatory contributions. Management records an allowance for amounts that are deemed to be uncollectible. As of September 30, 2016, an allowance of \$689,125 has been recorded.

Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are capitalized. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method over three years for Computers & Equipment, and five years for Furniture & Fixtures.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets and liabilities, the statement of net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time. The Commission includes in deferred inflows of resources unamortized amounts as a result of escalating lease payments and lease expense. This amount will be expensed over the life of the lease.

NOTE 2 - LIBRARY COLLECTION

The Interstate Commission on the Potomac River Basin has accumulated a sizeable and extensive technical library. Although this library is not carried as an asset on the books of the Commission, it could have substantial value.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – CASH AND INVESTMENTS

The Commission's manual of operations allows surplus funds to be deposited in commercial banks, saving and loans, and similar depositories, or invest in short term obligations of the U.S. Government, including U.S. obligation mutual funds. Cash deposits and investments made by the Commission are summarized below.

CASH

Petty cash and cash in interest bearing checking accounts	\$ 5,769
Cash in interest bearing money market funds	<u>175,656</u>
Total cash	<u><u>\$ 181,425</u></u>

INVESTMENTS

Mortgage backed securities	\$ 156,665
Nonnegotiable certificates of deposit	<u>2,176,968</u>
Total investments	<u><u>\$ 2,333,633</u></u>

The Commission has the following recurring fair value measurements as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by fair value level:				
Mortgage Backed Securities	\$ 156,665	-	-	\$ 156,665
Investments by amortized costs:				
Certificates of Deposit				<u>2,176,968</u>
Total				<u><u>\$ 2,333,633</u></u>

All amounts are reported at fair value as quoted on openly traded markets. Net unrealized gain (losses) for the fiscal year ended September 30, 2016 was \$24,437.

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. \$43,243 of the Commission's cash balances are insured by the Federal Deposit Insurance Corporation, up to the \$250,000 per insured bank limit. As of September 30, 2016, \$175,656 of the Commission's cash balance was held by a broker that is covered by the Securities Investor Protection Corporation.

Concentration risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. The Commission's policy does not establish a limit on the amount that can be invested in any one issuer.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

The Commission held position in three Certificates of Deposits that exceeded 5% of total investments as follows:

<u>Issuer</u>	<u>Amount</u>
AMERICAN EXPR CENTURION	\$ 152,191
SALLIE MAE BANK	125,118
ALLY BANK	175,730

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The table below includes the Commission's holdings by type, fair value, and maturity:

	<u>Less than 1 year</u>	<u>1-5 Years</u>	<u>Greater than 5 Years</u>	<u>Total</u>
Nonnegotiable Certificates of Deposit	\$ 585,050	\$ 1,591,918	\$ -	\$ 2,176,968
Mortgage Backed Securities	-	46,279	110,386	156,665
Total	<u>\$ 585,050</u>	<u>\$ 1,638,197</u>	<u>\$ 110,386</u>	<u>\$ 2,333,633</u>

The Commission was not exposed to foreign currency risk as of September 30, 2016.

NOTE 4 – FURNITURE AND EQUIPMENT

A summary of changes in furniture and equipment of the Commission was as follows:

	<u>September 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2016</u>
Depreciable Capital Assets:				
Furniture and Equipment	\$ 274,804	\$ 9,005	\$ (15,838)	\$ 267,971
Less: Accumulated Depreciation	224,371	20,820	(15,838)	229,353
Total	<u>\$ 50,433</u>	<u>\$ (11,815)</u>	<u>\$ -</u>	<u>\$ 38,618</u>

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term indebtedness (including current portion) for the Commission was as follows:

	September 30, 2015	Additions	Deletions	September 30, 2016	Current
Capital Lease Payable	<u>\$ 9,710</u>	<u>\$ -</u>	<u>\$ 1,944</u>	<u>\$ 7,766</u>	<u>\$ 2,592</u>

The Commission leases a copier under an agreement that is classified as a capital lease. The cost of equipment under the capital lease is included in the statement of net position as furniture & equipment and was \$7,766, as of September 30, 2016. Accumulated depreciation of the leased equipment at September 30, 2016 was \$1,942. Depreciation of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of September 30, 2016, were as follows:

Year Ending September 30,	Amount
2017	\$ 2,592
2018	2,592
2019	2,592
2020	2,592
Total minimum lease payments	10,368
Less: Amount representing interest	2,602
Capital lease obligation	<u>\$ 7,766</u>

NOTE 6 – LEASE AGREEMENTS

In July 2013, the Commission entered into a lease agreement with SYN-Rock, LLC to rent 7,201 square feet of the office building located at 30 West Gude Drive, Rockville, Maryland 20850. The terms of the lease run from November 13, 2013 to November 30, 2024. The base annual rent is \$169,224, payable in monthly installments of \$14,102, which increase by 2.75% each subsequent year. The lease also calls for the tenant to pay 5.47% of the increase in operating expenses from the initial lease year. Future lease payments are as follows:

Year Ending September 30,	Amount
2017	\$ 182,753
2018	187,779
2019	192,943
2020	198,249
2021	203,701
2022-2025	886,026
Total minimum future lease payments	<u>\$ 1,851,451</u>

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 7 – CONTRIBUTIONS – SIGNATORY AGENCIES

The actual revenues from the signatory states and the U.S. Government for the fiscal year ended September 30, 2016, and cash received by September 30, 2016, compared with the amounts requested as required in Article IV of the Compact for the Interstate Commission on the Potomac River Basin, as amended September 25, 1970 on a non accrual basis were as follows:

Signatory	Signatory		Balance
	Appropriation	Cash Collections	
District of Columbia	\$ 69,000	\$ 69,000	\$ -
Maryland	157,750	141,975	15,775
Pennsylvania	50,500	50,500	-
Virginia	151,500	151,500	-
West Virginia	55,500	55,500	-
	<u>\$ 484,250</u>	<u>\$ 468,475</u>	<u>\$ 15,775</u>

NOTE 8 – PUBLICATIONS

The Interstate Commission on the Potomac River Basin currently maintains a collection of map sets of the Potomac River for sale and distribution to the public. The Commission also has other publications including proceedings from conferences and other meetings, maps, technical brochures and reports. Current Commission policy allows for free distribution of each new publication to a specified list of individuals and organizations and to others at the discretion of the Commission.

The remainder of the publications are available for distribution upon payment of reproduction costs. A specific, identifiable market does not exist for most publications, and obsolescence is not readily determinable. All costs are expensed at the time of publication with no asset value being placed thereon. The current sales value of map sets on hand at September 30, 2016, is approximately \$22,840, based on the suggested retail price of the map sets.

NOTE 9 – RETIREMENT PLAN DESCRIPTION

The Interstate Commission on the Potomac River Basin Retirement Plan is a single-employer plan that administers the Commission's defined contribution pension plan for its employees. On October 1, 1985, the ICPRB Pension Trust amended its pension plan to a 401(K) plan. On October 1, 2009, the Commission made compliance amendments to its 401(K) plan to stay current with pension plan laws and regulations. A 401(K) plan treats employee contributions as a pre-tax contribution. The Commission is the only nonemployee contributor to the plan. As of September 30, 2016, the pension plan's current membership was 30 participants.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 9 – RETIREMENT PLAN DESCRIPTION (CONTINUED)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the return earned on investments of the contributions. The contributions made by an employee vest immediately and contributions made by the Commission vest after 6 years of employment. An employee who leaves the employment of the Commission is entitled to his or her contributions and the Commission's contributions if vesting requirements are satisfied. As determined by the Commission, each employee must contribute at least 6.25% of his or her gross earnings to the plan. The Commission is required to contribute an amount equal to 6.25% of the employee's gross earnings. Employee contributions for the year totaled \$211,853. Employer matching contributions for the year totaled \$85,368.

NOTE 10 – DEFERRED COMPENSATION PLAN

A deferred compensation plan was adopted at the Executive Committee meeting held June 20, 1974, for any employees who desire to participate in it. This plan was revised and approved at the Commission's business meeting on September 18, 1981 and again on September 12, 2004.

The deferred compensation plan is available to all employees of the Commission. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all amounts of compensation deferred under this Plan, all property and rights which may be purchased with such amounts and all income attributable to such amounts, property or rights shall be held in trust for a custodial account or annuity contract described in Code Section 401(f) for the exclusive benefit of participants and their beneficiaries. All such amounts shall not be subject to the claims of the Sponsoring Employer's general creditors.

As part of its fiduciary role, the Commission has an obligation of due care in selecting the third-party administrator. In the opinion of the Commission's legal counsel, the Commission has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

NOTE 11 – COMPENSATED ABSENCES

A future obligation exists to the employees of the Commission who have accumulated unused annual leave and comp time. Payment of unused annual leave accumulated up to the date of employment with the Commission is payable upon termination. Based on earning rates and accumulated unused leave as of September 30, 2016, that obligation was \$153,318.

This information is an integral part of the accompanying financial statements.

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 12 – CONCENTRATIONS

During the fiscal year ended September 30, 2016, reimbursements from the Environmental Protection Agency represented approximately 53% of the Commissions operating revenues.

NOTE 13 – JOINT VENTURES

The Commission has entered into the Potomac River Basin Drinking Water Source Protection Partnership (DWSP), which is a collaborative effort by drinking water suppliers and government agencies to undertake activities that protect shared drinking water sources. Coordination of DWSP activities has been entrusted to the Commission, which includes providing basic administrative support, communication support and data analysis assistance. During the year ended September 30, 2016, the Commission expended \$126,371 in DWSP related expenses.

NOTE 14 – CONTINGENCIES

The Commission receives Federal grant funding from the United States Environmental Protection Agency. This grant is subject to review and audit under the Uniform Guidance. Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for allowable purposes until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs.

SUPPORTING SCHEDULES TO THE FINANCIAL STATEMENTS

**INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
SUPPORTING SCHEDULES TO THE FINANCIAL STATEMENTS
As of September 30, 2016**

SS-1 – SCHEDULE OF SIGNATORY CONTRIBUTIONS RECEIVABLE

Signatory	Fiscal Year		
District of Columbia	FYE 11		69,000
Maryland	FYE 15	15,775	
	FYE 14	15,775	
	FYE 13	15,775	
	FYE 07	31,710	
	FYE 06	34,635	
	FYE 05	8,022	
	FYE 04	18,100	
	FYE 97	10,726	
	FYE 96	<u>10,607</u>	161,125
Pennsylvania	FYE 16	12,625	
	FYE 13	3,375	
	FYE 12	<u>1,125</u>	17,125
Virginia	FYE 14	113,625	
	FYE 13	151,500	
	FYE 12	151,500	
	FYE 11	<u>37,875</u>	454,500
			<u>701,750</u>
Less: Allowance for doubtful accounts			<u>(689,125)</u>
Total Signatory State Contributions Receivable			<u><u>\$ 12,625</u></u>

SS-2 – SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE RECEIVABLE

VA Goose Creek Plan	\$ 9,551
EPA Source Water Partnership (WV)	6,157
EPA WV Algae Sampling V	4,352
EPA 106	111,794
EPA Ches. Bay Pgm 2016	16,553
Total Federal Financial Assistance Receivable	<u><u>\$ 148,407</u></u>

SS-3 – SCHEDULE OF SPECIAL PROJECT CONTRACTS RECEIVABLE

MDE Support Turf Grass	\$ 462
MDE P6 Development II	35,000
VA Accotink	2,395
WFR - Forest	24,619
Total of Special Projects Contracts Receivable	<u><u>\$ 62,476</u></u>

**INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
SUPPORTING SCHEDULES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2016**

SS-4 – SCHEDULE OF FEDERAL GRANTS REVENUE

Grant	Budget	Actual	Variance
EPA 106 (#803)	\$ 758,368	\$ 758,368	\$ -
EPA WV Algae Sampling IV	24,656	23,177	(1,479)
EPA WV Algae Sampling V	15,000	10,703	(4,297)
EPA Ches. Bay Pgm 2015	210,000	200,594	(9,406)
EPA Ches. Bay Pgm 2016	50,000	54,967	4,967
EPA VA Accotink Benthic TMDL	100,000	90,000	(10,000)
VA Goose Creek Plan	34,000	26,263	(7,737)
EPA Source Water Partnership (WV)	6,348	6,348	-
Total	\$ 1,198,372	\$ 1,170,420	\$ (27,952)

SS-5 – SCHEDULE OF NON-FEDERAL GRANTS REVENUE

Project	Budget	Actual	Variance
MDE Support-Turf Grass	\$ 4,917	\$ 4,587	\$ (330)
MDE P6 Development II	95,000	95,000	-
Source Water Partnership (state and private)	65,338	65,827	489
WFR - Forest	110,000	94,530	(15,470)
VA Accotink Benthic TMDL	4,144	4,144	-
CO-OP Utility Support	454,331	415,931	(38,400)
CBT- PGC	50,000	55,597	5,597
Total	\$ 783,730	\$ 735,616	\$ (48,114)

SS-6 – SCHEDULE OF SIGNATORY CONTRIBUTIONS

Signatory	Budget	Actual	Variance
District of Columbia	\$ 69,000	\$ 69,000	\$ -
Maryland	157,750	141,975	(15,775)
Pennsylvania	50,500	50,500	-
Virginia	151,500	151,500	-
West Virginia	55,500	55,500	-
Total	\$ 484,250	\$ 468,475	\$ (15,775)

INTERSTATE COMMISSION ON THE POTOMAC RIVER BASIN
SCHEDULE OF EXPENSES BY FUNCTION WITH BUDGET VERSUS ACTUALS TOTALS (SS-7)
For the Year Ended September 30, 2016

	Program Services					Supporting Service						Actual Vs.
	Public					Management and General	Total	Fixed Asset Adjustment	Adjusted Total	Original Budget	Final Budget	Final Budget Variance
	Water Quality	Water Resources	Education and Information	Living Resources	Cross Cutting							
Salary	\$ 104,689	\$ 298,239	\$ 48,110	\$ 14,757	\$ 528,125	\$ 483,293	\$ 1,477,213	\$ -	\$ 1,477,213	\$ 1,376,152	\$ 1,504,940	\$ (27,727)
Allocated Fringe	45,748	130,330	21,023	6,449	230,790	(434,340)	-	-	-	-	-	-
FICA	-	-	-	-	-	107,257	107,257	-	107,257	105,127	114,819	(7,562)
Hospitalization and Disability Insurance	-	-	-	-	-	98,825	98,825	-	98,825	126,127	133,058	(34,233)
Retirement	-	-	-	-	-	85,368	85,368	-	85,368	85,885	93,934	(8,566)
Transit Subsidy	-	-	-	-	-	70	70	-	70	3,000	3,000	(2,930)
Workmen's Compensation	-	-	-	-	-	3,912	3,912	-	3,912	5,600	5,600	(1,688)
Rent	-	150	-	-	-	227,869	228,019	-	228,019	199,516	199,516	28,503
Equipment	-	2,020	-	-	-	-	2,020	-	2,020	49,000	30,000	(27,980)
Equipment Maint. & Rental	-	-	-	-	-	29,772	29,772	-	29,772	35,192	38,002	(8,230)
Postage	32	-	-	-	14	342	388	-	388	2,850	2,650	(2,262)
Supplies & Office Expense	2,750	3,663	11,589	248	4,829	16,749	39,828	-	39,828	27,202	51,826	(11,998)
Communications	-	1,896	-	-	195	18,790	20,881	-	20,881	18,610	19,450	1,431
Insurance & Bond	-	-	718	-	-	6,367	7,085	-	7,085	9,900	8,950	(1,865)
Audit & Accounting	-	-	-	-	-	20,220	20,220	-	20,220	26,400	26,400	(6,180)
Travel	983	5,907	1,489	1,631	15,424	2,708	28,142	-	28,142	18,541	31,087	(2,945)
Educational Resources	-	-	-	-	6,897	3,500	10,397	-	10,397	18,010	16,547	(6,150)
Training	-	-	-	-	415	2,940	3,355	-	3,355	5,100	9,460	(6,105)
Meeting Expense	-	186	-	-	2,272	8,660	11,118	-	11,118	24,000	18,200	(7,082)
Contracts	4,170	42,121	-	-	17,400	-	63,691	-	63,691	24,000	66,370	(2,679)
Consultants	-	-	-	-	-	18,000	18,000	-	18,000	54,546	21,000	(3,000)
Bad Debt Expense	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense	-	-	-	-	-	20,820	20,820	-	20,820	25,000	25,000	(4,180)
Total	<u>\$ 158,372</u>	<u>\$ 484,512</u>	<u>\$ 82,929</u>	<u>\$ 23,085</u>	<u>\$ 806,361</u>	<u>\$ 721,122</u>	<u>\$ 2,276,381</u>	<u>\$ -</u>	<u>\$ 2,276,381</u>	<u>\$ 2,239,758</u>	<u>\$ 2,419,809</u>	<u>\$ (143,428)</u>