

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2016



ASSURANCE, TAX & ADVISORY SERVICES

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 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.

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.

Opinion

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, 2016, 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 49-50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and Schedule of Expenditures of Federal Awards, as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
November 21, 2016

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, 2016. 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, 2016, PRTC's assets exceeded liabilities by \$289,929,245. Of this total, \$79,180,813 is for bus service and member jurisdictions and \$210,748,432 is for commuter rail service.

The net position of PRTC increased by \$8,685,588 for fiscal year 2016. This is the net effect of a \$14,557,483 decrease from bus service and member jurisdictions and a \$23,243,071 increase from commuter rail service.

As of June 30, 2016, PRTC's unrestricted net position is \$63,281,136. Of this total, \$23,025,108 is for bus service and member jurisdictions and \$40,256,028 is for commuter rail service.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found immediately following the financial statements.

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

PRTC operates commuter bus service from the Prince William County and Manassas areas to various points in the metropolitan Washington, D.C. area, and local bus service within Prince William County and the Cities of Manassas and Manassas Park.

PRTC member jurisdictions receive motor fuel tax revenue from a 2.1% sales tax levied by the Commonwealth of Virginia through its Department of Motor Vehicles. The Department of Motor Vehicles collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects serving a particular jurisdiction.

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

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

FINANCIAL ANALYSIS OF THE PRTC REPORTING ENTITY AS A WHOLE

Statement of Net Position

The following table presents a summary of the Statement of Net Position for the PRTC reporting entity as of June 30, 2016 and 2015:

Summary of Net Position As of June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2016	2015	2016	2015	2016	2015
Assets and deferred outflows of resources:						
Current assets	\$ 44,597,160	\$ 59,647,397	\$ 51,928,645	\$ 38,005,892	\$ 96,525,805	\$ 97,653,289
Capital assets, net	45,238,908	43,567,246	171,962,273	163,604,536	217,201,181	207,171,782
Net pension asset	156,031	236,729	213,799	267,880	369,830	504,609
Deferred outflows of resources	232,831	215,975	319,010	244,793	551,841	460,768
Total assets and deferred outflows of resources	90,224,930	103,667,347	224,423,727	202,123,101	314,648,657	305,790,448
Liabilities and deferred inflows of resources:						
Current liabilities	8,598,483	7,046,929	6,804,592	6,937,053	15,403,075	13,983,982
Noncurrent liabilities	2,312,623	2,527,212	6,688,447	7,279,072	9,001,070	9,806,284
Deferred inflows of resources	133,011	354,910	182,256	401,615	315,267	756,525
Total liabilities and deferred inflows of resources	11,044,117	9,929,051	13,675,295	14,617,740	24,719,412	24,546,791
Net Position:						
Net investment in capital assets	43,236,929	41,317,550	164,882,798	155,897,478	208,119,727	197,215,028
Restricted	12,918,776	29,710,725	5,609,606	5,243,766	18,528,382	34,954,491
Unrestricted	23,025,108	22,710,021	40,256,028	26,364,117	63,281,136	49,074,138
Total net position	\$ 79,180,813	\$ 93,738,296	\$ 210,748,432	\$ 187,505,361	\$ 289,929,245	\$ 281,243,657

As noted earlier, net position may serve as a useful indicator of a government's financial position. As shown above, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$289.9 million, an increase of \$8.7 million over the previous fiscal year. The largest portion of net position, \$208.1 million or 71.8%, 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, \$18.5 million or 6.4%, represents resources restricted for member jurisdictions, commuter rail liability insurance plan, and commuter rail grants or contributions.

Current assets consist primarily of cash, cash equivalents, and investments; grant revenue due from the Federal Government and the Commonwealth of Virginia; and motor fuel tax revenue receivable collected on PRTC's behalf by the Commonwealth. Current assets decreased approximately \$1.1 million or 1.2% from the prior year, primarily due to decreased cash and investments of \$18.1 million offset by increased grant and other receivables of \$17.0 million.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$10.0 million or 4.8% primarily as the result of bus additions, the completion of the bus service computer aided dispatch/automated vehicle location (CAD/AVL) project, new rail rolling stock, and new rail project construction.

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, 2016 and 2015:

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

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Operating revenues	\$ 30,086,744	\$ 35,724,899	\$ 20,351,185	\$ 20,789,732	\$ 50,437,929	\$ 56,514,631
Nonoperating revenues	25,470,239	23,837,580	11,608,134	11,287,620	37,078,373	35,125,200
Capital grants & assistance, net	28,701,952	21,224,928	2,486,489	(6,107,656)	31,188,441	15,117,272
Transfers, net	(35,974,130)	(31,387,614)	35,974,130	31,387,614	-	-
Total revenues	48,284,805	49,399,793	70,419,938	57,357,310	118,704,743	106,757,103
Expenses:						
Operating expenses	57,327,675	50,002,118	37,415,308	36,610,679	94,742,983	86,612,797
Depreciation and amortization	5,458,107	6,221,920	8,476,782	7,695,597	13,934,889	13,917,517
Nonoperating expenses	56,506	48,643	343,305	400,804	399,811	449,447
Extraordinary item	-	-	941,472	-	941,472	-
Total expenses	62,842,288	56,272,681	47,176,867	44,707,080	110,019,155	100,979,761
Change in net position	(14,557,483)	(6,872,888)	23,243,071	12,650,230	8,685,588	5,777,342
Net position, beginning	93,738,296	100,611,184	187,505,361	174,855,131	281,243,657	275,466,315
Net position, ending	\$ 79,180,813	\$ 93,738,296	\$ 210,748,432	\$ 187,505,361	\$ 289,929,245	\$ 281,243,657

For the fiscal year ended June 30, 2016, revenues totaled \$118.7 million, compared to \$106.7 million in the preceding year, an increase of \$11.9 million or 11.2%. Expenses increased by \$9.0 million or 9.0%. A discussion of the key components of these changes follows.

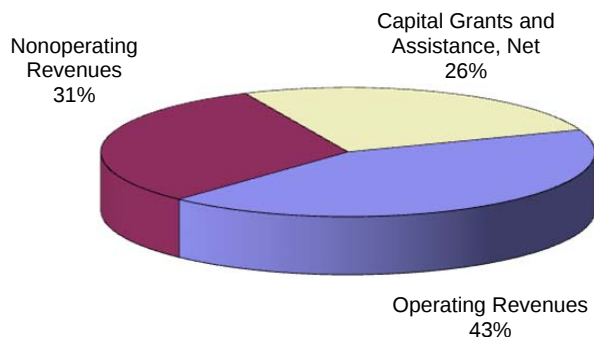
Operating revenues decreased \$6.1 million or 10.8% from the prior year, primarily the result of a decrease in motor fuel tax revenue. Motor fuel tax revenue decreased approximately \$6.1 million or 24.7%.

Nonoperating revenues increased by \$1.9 million or 5.6% from the prior year, primarily the result of federal nonoperating grant revenue, which increased by \$1.5 million.

Net capital grants and assistance increased by \$16.1 million, which is attributable to additional bus and rail service related capital grants for fiscal year 2016 compared to fiscal year 2015. In addition, the increase is also due to the change in the contribution to/from NVTC as a result of allocating rail service between PRTC and NVTC for fiscal year 2016 financial reporting purposes.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2016.

FY16 Revenues

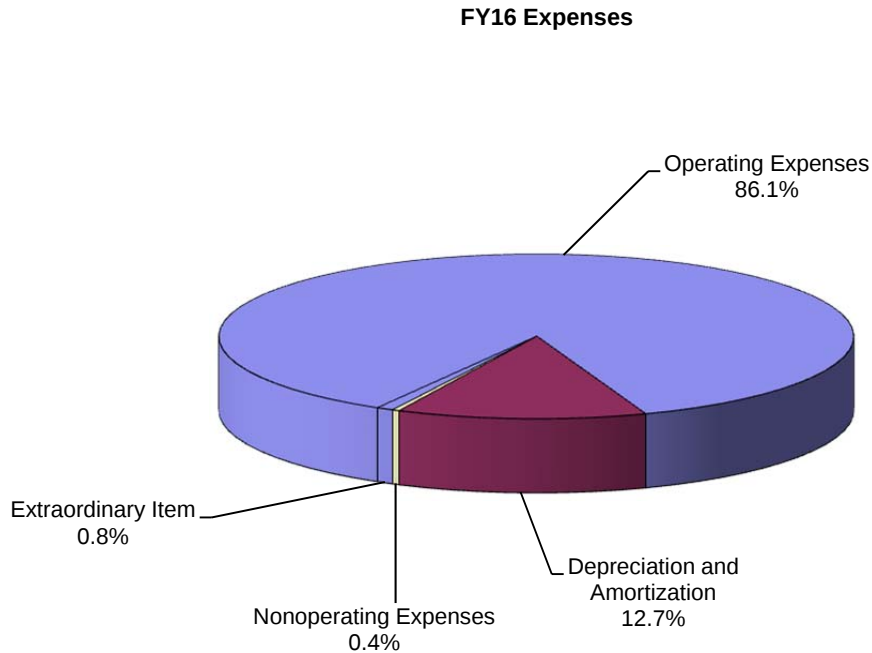


Operating expenses increased by \$8.1 million or 9.4%.

For the Bus Service and Member Jurisdictions Fund, operating expenses increased by \$7.3 million, primarily due to direct transportation expenses. 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 \$6.7 million.

For the Commuter Rail Service fund, operating expenses increased by \$0.8 million or 2.2%. While total operating expenses of the commuter rail service increased between years, PRTC's share of the reporting entity also decreased from 56% to 54%, with a corresponding increase for NVTC.

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2016.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2016 and 2015 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2016	2015	2016	2015	2016	2015
Buses and related equipment	\$ 80,452,798	\$ 75,017,151	\$ -	\$ -	\$ 80,452,798	\$ 75,017,151
Rail rolling stock	-	-	132,377,538	124,647,981	132,377,538	124,647,981
Land	6,639,270	6,639,270	-	-	6,639,270	6,639,270
Buildings	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Building improvements	3,968,436	3,932,663	-	-	3,968,436	3,932,663
Construction in progress	3,572,531	6,931,165	6,948,336	14,520,293	10,520,867	21,451,458
Site improvements	1,430,513	1,435,093	-	-	1,430,513	1,435,093
Bus shelters	1,508,473	1,408,307	-	-	1,508,473	1,408,307
Vehicles	141,987	149,332	69,155	53,600	211,142	202,932
Furniture and equipment	2,524,672	522,912	-	-	2,524,672	522,912
Software and easement	3,530,098	934,712	-	-	3,530,098	934,712
Facilities	-	-	51,747,275	51,224,980	51,747,275	51,224,980
Track and signal improvements	-	-	42,350,282	26,342,183	42,350,282	26,342,183
Furniture, equipment and software	-	-	8,808,001	8,720,136	8,808,001	8,720,136
Equity in property of others	-	-	2,893,643	2,893,643	2,893,643	2,893,643
	111,821,119	105,022,946	245,194,230	228,402,816	357,015,349	333,425,762
Less accumulated depreciation and amortization	66,582,211	61,455,700	73,231,957	64,798,280	139,814,168	126,253,980
Total capital assets, net	\$ 45,238,908	\$ 43,567,246	\$ 171,962,273	\$ 163,604,536	\$ 217,201,181	\$ 207,171,782

PRTC's investment in capital assets as of June 30, 2016, amounted to \$217.2 million (net of accumulated depreciation and amortization), which represents an increase of \$10.0 million or 4.8%.

For bus service and member jurisdictions, during fiscal year 2016, seven OmniRide and six OmniLink buses were purchased at a total cost of \$3.1 million and \$2.5 million, respectively. In addition, the CAD/AVL project was completed at a total project cost of \$4.7 million, of which \$3.7 million was transferred from construction in progress.

For commuter rail service, completed projects totaling approximately \$25.7 million were closed from construction in progress to their respective capital accounts and an additional \$0.15 million was charged directly to the capital accounts.

The major completed commuter rail projects consisted of the purchase of seven Gallery rail cars (\$7.7 million), the construction of the Spotsylvania VRE station (\$2.1 million), and the construction of a third track between Hamilton and Crossroads in Spotsylvania County (\$16.0 million). The major additions to construction in progress during the fiscal year were the installation of Positive Train Control equipment in VRE's locomotive and cab cars (\$3.2 million), the design of a life-cycle maintenance facility at the VRE Crossroad Yard (\$0.90 million), the design of a pedestrian tunnel at the Alexandria VRE station (\$0.50 million), and the construction of a storage track north of the L'Enfant VRE station (\$0.30 million).

Debt Administration

At June 30, 2016, PRTC had an outstanding principal balance of \$1,735,000 for its Series 2012 Revenue Bond with the Virginia Resources Authority.

PRTC's portion of debt for the commuter rail service is \$7.1 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET POSITION

June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	\$ 17,729,058	\$ 15,034,604	\$ 32,763,662
Receivables:			
Due from other governments	40,965,204	-	40,965,204
Trade receivables, net of allowance for doubtful accounts	-	1,169,604	1,169,604
Miscellaneous	45,982	1,120,217	1,166,199
Internal balances	(26,778,611)	26,778,611	-
Inventory	-	2,141,632	2,141,632
Prepaid expenses and other assets	46,813	74,371	121,184
Restricted assets:			
Cash and investments in pooled funds - member jurisdictions	12,588,714	-	12,588,714
Cash, cash equivalents and investments	-	5,609,606	5,609,606
Total current assets	44,597,160	51,928,645	96,525,805
Noncurrent Assets			
Net pension asset	156,031	213,799	369,830
Capital assets:			
Transportation equipment:			
Buses and related equipment	80,452,798	-	80,452,798
Rail rolling stock	-	132,377,538	132,377,538
Less: accumulated depreciation	(56,952,213)	(34,758,505)	(91,710,718)
Transportation equipment, net	23,500,585	97,619,033	121,119,618
Land, buildings and equipment:			
Land	6,639,270	-	6,639,270
Buildings	8,052,341	-	8,052,341
Building improvements	3,968,436	-	3,968,436
Construction in progress	3,572,531	6,948,336	10,520,867
Site improvements	1,430,513	-	1,430,513
Bus shelters	1,508,473	-	1,508,473
Vehicles	141,987	69,155	211,142
Furniture and equipment	2,524,672	-	2,524,672
Software and easement	3,530,098	-	3,530,098
Facilities	-	51,747,275	51,747,275
Track and signal improvements	-	42,350,282	42,350,282
Furniture, equipment and software	-	8,808,001	8,808,001
Equity in property of others	-	2,893,643	2,893,643
Less: accumulated depreciation and amortization	(9,629,998)	(38,473,452)	(48,103,450)
Land, buildings and equipment, net	21,738,323	74,343,240	96,081,563
Total capital assets, net	45,238,908	171,962,273	217,201,181
Total noncurrent assets	45,394,939	172,176,072	217,571,011
Deferred Outflows of Resources			
Pension plan	232,831	319,010	551,841
Total deferred outflows of resources	232,831	319,010	551,841
Total assets and deferred outflows of resources	\$ 90,224,930	\$ 224,423,727	\$ 314,648,657

See Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	\$ 3,955,401	\$ 1,804,125	\$ 5,759,526
Accrued expenses	-	2,670,476	2,670,476
Accrued payroll and benefits	456,389	-	456,389
Accrued interest	20,417	53,966	74,383
Due to other governments	3,018,405	-	3,018,405
Unearned revenue	905,629	905,358	1,810,987
Capital leases	-	657,125	657,125
Compensated absences	27,242	13,205	40,447
Retainage payable	-	700,337	700,337
Bond payable	215,000	-	215,000
Total current liabilities	8,598,483	6,804,592	15,403,075
Noncurrent Liabilities			
Compensated absences	525,644	266,095	791,739
Capital leases	-	6,422,352	6,422,352
Bond payable, net	1,786,979	-	1,786,979
Total noncurrent liabilities	2,312,623	6,688,447	9,001,070
Total liabilities	10,911,106	13,493,039	24,404,145
Deferred Inflows of Resources			
Pension plan	133,011	182,256	315,267
Total deferred inflows of resources	133,011	182,256	315,267
Net Position			
Net investment in capital assets	43,236,929	164,882,798	208,119,727
Restricted	12,918,776	5,609,606	18,528,382
Unrestricted	23,025,108	40,256,028	63,281,136
Total net position	79,180,813	210,748,432	289,929,245
Total liabilities, deferred inflows of resources and net position	\$ 90,224,930	\$ 224,423,727	\$ 314,648,657

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Year Ended June 30, 2016

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax	\$ 18,704,192	\$ -	\$ 18,704,192
Farebox and passenger	11,331,751	20,222,410	31,554,161
Advertising	50,801	-	50,801
Equipment rental and other	-	128,775	128,775
Total operating revenues	30,086,744	20,351,185	50,437,929
Operating Expenses			
Direct transportation	24,229,100	-	24,229,100
Salaries and related benefits	4,654,303	-	4,654,303
Contractual services	23,103,612	-	23,103,612
Other services	1,622,126	-	1,622,126
Materials, supplies and minor equipment	761,917	-	761,917
Fuel	2,956,617	-	2,956,617
Contract operations and maintenance	-	12,919,056	12,919,056
Other operations and maintenance	-	7,329,273	7,329,273
Property leases and access fees	-	8,140,982	8,140,982
Insurance	-	2,170,572	2,170,572
Marketing and sales	-	1,283,897	1,283,897
General and administrative	-	5,571,528	5,571,528
Total operating expenses	57,327,675	37,415,308	94,742,983
Operating loss before depreciation and amortization	(27,240,931)	(17,064,123)	(44,305,054)
Depreciation and amortization	(5,458,107)	(8,476,782)	(13,934,889)
Operating loss	(32,699,038)	(25,540,905)	(58,239,943)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	11,251,725	11,251,725
Commonwealth of Virginia grants	6,572,553	-	6,572,553
Federal grants	18,130,107	-	18,130,107
Regional transportation funding	-	271,336	271,336
Investment income	60,781	85,073	145,854
Pass-through grants - member jurisdictions	(1,022)	-	(1,022)
Interest, amortization and other nonoperating expenses, net	(40,766)	(343,305)	(384,071)
Other revenue	706,798	-	706,798
Total nonoperating revenues, net	25,428,451	11,264,829	36,693,280
Capital Grants and Assistance			
Commonwealth of Virginia grants	5,027,415	-	5,027,415
Federal grants	23,652,537	-	23,652,537
Capital contributions	22,000	-	22,000
Contribution from NVTC	-	1,642,814	1,642,814
Other local contributions	-	843,675	843,675
Total capital grants and assistance, net	28,701,952	2,486,489	31,188,441
Income (loss) before transfers, loss on disposal of assets and extraordinary item	21,431,365	(11,789,587)	9,641,778
Transfers, net	(35,974,130)	35,974,130	-
Loss on Disposal of Assets	(14,718)	-	(14,718)
Extraordinary Item	-	(941,472)	(941,472)
Change in net position	(14,557,483)	23,243,071	8,685,588
Net Position, beginning	93,738,296	187,505,361	281,243,657
Net Position, ending	\$ 79,180,813	\$ 210,748,432	\$ 289,929,245

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS Year Ended June 30, 2016

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	\$ 18,895,098	\$ -	\$ 18,895,098
Receipts from customers	10,358,471	20,139,151	30,497,622
Receipts from advertising	50,801	-	50,801
Payments to suppliers	(28,618,450)	(33,933,474)	(62,551,924)
Payments to member jurisdictions	(22,225,796)	-	(22,225,796)
Payments to employees	(4,888,916)	(3,024,131)	(7,913,047)
Net cash used in operating activities	(26,428,792)	(16,818,454)	(43,247,246)
Cash Flows from Capital and Related Financing Activities			
Interest payments on revenue bond	(85,296)	-	(85,296)
Principal payments on revenue bond	(205,000)	-	(205,000)
Interest payments on capital leases	-	(345,239)	(345,239)
Principal payments on capital leases	-	(627,581)	(627,581)
Proceeds from sale of assets	10,566	533,140	543,706
Purchase of buses and related equipment	(5,560,901)	-	(5,560,901)
Acquisition of capital assets	(973,573)	(18,692,545)	(19,666,118)
Net cash used in capital and related financing activities	(6,814,204)	(19,132,225)	(25,946,429)
Cash Flows from Noncapital Financing Activities			
Federal and state grants bus and commuter rail services	38,089,283	-	38,089,283
Governmental subsidies	-	12,005,725	12,005,725
Interfund transfers	(19,689,433)	19,689,433	-
Payments for jurisdiction grant - related expenditures	(1,022)	1,482,338	1,481,316
Net cash provided by noncapital financing activities	18,398,828	33,177,496	51,576,324
Cash Flows From Investing Activities			
Investment income	60,781	87,612	148,393
Other revenues	(583,897)	-	(583,897)
Net cash provided by (used in) investing activities	(523,116)	87,612	(435,504)
Decrease in cash and cash equivalents	(15,367,284)	(2,685,571)	(18,052,855)
Cash and Cash Equivalents			
Beginning	45,685,056	23,329,781	69,014,837
Ending	\$ 30,317,772	\$ 20,644,210	\$ 50,961,982

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS (Continued) Year Ended June 30, 2016

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (32,699,038)	\$ (25,540,905)	\$ (58,239,943)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	5,458,107	8,476,782	13,934,889
Pension benefit	(158,057)	(128,477)	(286,534)
Gain on disposal of assets	-	-	-
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	(604,849)	-	(604,849)
Miscellaneous receivables	24,958	(30,671)	(5,713)
Prepaid expenses and other assets	(6,218)	(8,423)	(14,641)
Trade receivables	-	(254,935)	(254,935)
Inventory	-	(49,658)	(49,658)
Increase (decrease) in:			
Accounts payable and other liabilities	(167,960)	644,260	476,300
Accrued payroll and benefits	(76,556)	-	(76,556)
Due to other governments	2,003,304	-	2,003,304
Unearned revenue	(202,483)	73,573	(128,910)
Net cash used in operating activities	\$ (26,428,792)	\$ (16,818,454)	\$ (43,247,246)
Schedule of Noncash Capital Activities:			
Capital assets acquired through:			
Accounts payable	\$ 602,275	\$ 767,873	\$ 1,370,148
Capital contributions	22,000	-	22,000
Accrued expenses	-	1,227,279	1,227,279

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

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

The Commission has 17 members, including three from the General Assembly and one ex-officio representative from the Virginia Department of Rail and Public Transportation. The governing body of each member jurisdiction appoints, from among its members, its representatives to act as Commissioners. The composition of the Commission is as follows:

	Members	Represented Jurisdictions
Prince William County	6	1
Stafford County	2	1
Spotsylvania County	2	1
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	-
	<u>17</u>	<u>8</u>

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

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

Revenues of PRTC consist principally of a 2.1% motor fuel tax, farebox and passenger revenues, and federal and state grants. The fuel tax revenues represent a sales tax on retail sales of motor vehicle fuel levied by the Commonwealth of Virginia through its Department of Motor Vehicles. The Department of Motor Vehicles collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects serving a particular jurisdiction.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

Reporting entity: PRTC has considered its relationship with the member jurisdictions in establishing the appropriate reporting entity in terms of financial accountability and fiscal dependency. None of the member jurisdictions appoint a voting majority of the Commission. Although action by PRTC, including adoption of a budget and issuance of debt, requires approval of a majority of the member jurisdictions, each jurisdiction controls PRTC's use of its 2.1% motor fuel tax proceeds. PRTC is not fiscally dependent on one particular jurisdiction. Thus, PRTC does not consider itself a component unit of any government.

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

Basis of presentation: The accounting policies of PRTC conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units. While separate funds are maintained to account for each member jurisdiction's 2.1% motor fuel tax revenues, one combined enterprise fund (Bus Service and Member Jurisdictions Fund) is used for financial statement presentation. The activities of PRTC are similar to those of proprietary funds of local jurisdictions.

PRTC reports the following major enterprise funds:

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and investments in pooled funds, member jurisdictions: Cash and investments in pooled funds represent PRTC's share of the pooled cash and investments held by the State Treasurer's 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 cash, cash equivalents and investments of \$12,588,714 at June 30, 2016 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 \$5,609,606 at June 30, 2016 for the Commuter Rail Services Fund are comprised of funds related to the balance in the Liability Insurance Plan, a small liability claims account, and undisbursed funds related to a property transfer.

Allowance for uncollectible accounts: The allowance for uncollectible accounts is calculated by using historical collection data and specific account analysis. The allowance was approximately \$101,400 at June 30, 2016.

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

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

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are stated at historical cost. Capital assets are defined by PRTC for the Bus Service and Member Jurisdictions Fund as tangible assets with an initial, individual cost of more than \$5,000 or intangible assets costing more than \$25,000 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. The Commuter Rail Service Fund capitalizes assets that have an initial cost of \$5,000 or more per unit and a useable life of two or more years, with the exception of software purchases, which are only capitalized if the initial cost is \$15,000 or more.

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	2 - 12 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 property of others	3 - 35 years

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

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

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

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

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

Operating revenues and expenses: Operating revenues are generated from activities related to providing public transportation services to users. Operating revenues include 2.1% motor fuel tax revenues, farebox and passenger revenues, and advertising revenues. Nonoperating revenues include federal and state grants and investment income.

Operating expenses are incurred for activities related to providing public transportation services to users. Operating expenses include direct transportation expenses and general and administrative expenses. Nonoperating expenses include interest expense.

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

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

Inter-fund transfers: Transactions among the Commission's funds would be treated as revenues and expenditures or expenses if they involved organizations external to the Commission are accounted for as revenues and expenditures or expenses in funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Subsequent events: The Commission has evaluated subsequent events through November 21, 2016, which was the date the financial statements were available to be issued.

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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 LGIP.

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

The Commonwealth of Virginia Department of the 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, 2016, PRTC had \$5,193,378 invested in the Insurance Trust.

Interest Rate Risk

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, 2016, 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
Sweep Account	\$ 17,906,000	\$ -	\$ 17,906,000	\$ 17,906,000	\$ 17,906,000
LGIP	-	10,443,073	10,443,073	10,443,073	10,443,073
	17,906,000	10,443,073	28,349,073	28,349,073	28,349,073
Restricted:					
Insurance trust fund - pooled funds	-	5,193,378	5,193,378	5,193,378	5,193,378
LGIP	12,588,714	26,617	12,615,331	12,615,331	12,615,331
	12,588,714	5,219,995	17,808,709	17,808,709	17,808,709
	\$ 30,494,714	\$ 15,663,068	\$ 46,157,782	\$ 46,157,782	\$ 46,157,782

The Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

- Sweep Account of \$17,906,000 is valued using quoted market prices (Level 2 inputs).

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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

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

Authorized Investments

Authorized investments for public funds are set forth in Chapter 18, Sections 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

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

The limitations provided in the investment policy for maximum maturity and the percentages of the portfolio permitted for each category of investments 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	\$ 2,314,613
Prince William County	1,104
City of Manassas	178,702
City of Manassas Park	2,318,625
City of Fredericksburg	1,614,212
Spotsylvania County	6,161,458
	<u>\$ 12,588,714</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions
Virginia Department of Motor Vehicles - motor fuel tax receipts	\$ 3,319,215
Virginia Department of Taxation - motor fuel tax receipts	1,000
Virginia Department of Rail and Public Transportation	426,680
Federal Transit Administration	33,399,341
Washington Metropolitan Area Transit Authority	1,548,426
Metropolitan Washington Council of Governments	752,565
Virginia Department of Transportation	557,631
Northern Virginia Transportation Commission	496,906
Prince William County	462,343
City of Manassas	1,097
	\$ 40,965,204

Amounts due to other governments are as follows:

	Bus Service and Member Jurisdictions
Spotsylvania County	\$ 885,112
City of Fredericksburg	47,412
Prince William County	460,000
Stafford County	1,597,629
Virginia Department of Rail and Public Transportation	3,740
Washington Metropolitan Area Transit Authority	24,512
	\$ 3,018,405

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Increases	Decreases	Transfers	Balance June 30, 2016
Capital assets not being depreciated or amortized:					
Land	\$ 6,639,270	\$ -	\$ -	\$ -	\$ 6,639,270
Construction in progress	21,451,458	18,710,888	(117,741)	(29,523,738)	10,520,867
Total capital assets not being depreciated or amortized	28,090,728	18,710,888	(117,741)	(29,523,738)	17,160,137
Capital assets being depreciated and amortized:					
Buses and related equipment	75,017,151	5,560,901	(125,254)	-	80,452,798
Rail rolling stock	124,647,981	-	-	7,729,557	132,377,538
Buildings	8,052,341	-	-	-	8,052,341
Building improvements	3,932,663	105,897	(70,124)	-	3,968,436
Site improvements	1,435,093	-	(4,580)	-	1,430,513
Bus shelters	1,408,307	36,839	-	63,327	1,508,473
Vehicles	202,932	42,040	(33,830)	-	211,142
Furniture and equipment	522,912	423,893	(69,744)	1,647,611	2,524,672
Software and easement	934,712	574,177	(53,350)	2,074,559	3,530,098
Facilities	51,224,980	13,404	(1,517,718)	2,026,609	51,747,275
Track and signal improvements	26,342,183	26,024	-	15,982,075	42,350,282
Furniture, equipment and software	8,720,136	87,865	-	-	8,808,001
Equity in property of others	2,893,643	-	-	-	2,893,643
Total capital assets being depreciated and amortized	305,335,034	6,871,040	(1,874,600)	29,523,738	339,855,212
Less accumulated depreciation and amortization for:					
Buses and related equipment	52,481,484	4,595,983	(125,254)	-	56,952,213
Rail rolling stock	29,711,792	5,046,713	-	-	34,758,505
Buildings	4,695,948	268,510	-	-	4,964,458
Building improvements	1,569,511	244,248	(44,839)	-	1,768,920
Site improvements	434,121	69,577	(4,580)	-	499,118
Bus shelters	1,008,136	131,466	-	-	1,139,602
Vehicles	163,514	16,379	(33,830)	-	146,063
Furniture and equipment	391,879	46,116	(69,744)	-	368,251
Software and easement	750,512	91,592	(53,350)	-	788,754
Facilities	16,170,799	1,521,598	(43,104)	-	17,649,293
Track and signal improvements	10,719,967	1,162,654	-	-	11,882,621
Furniture, equipment and software	6,507,882	655,104	-	-	7,162,986
Equity in property of others	1,648,435	84,949	-	-	1,733,384
Total accumulated depreciation and amortization	126,253,980	13,934,889	(374,701)	-	139,814,168
Total capital assets being depreciated and amortized, net	179,081,054	(7,063,849)	(1,499,899)	29,523,738	200,041,044
Total capital assets, net	\$ 207,171,782	\$ 11,647,039	\$ (1,617,640)	\$ -	\$ 217,201,181

The chart above reflects the removal of \$1.5 million of facilities, the net book value of the land and improvements associated with the Kiss and Ride facility at VRE's Woodbridge station. During fiscal year 2016, the Virginia Department of Transportation (VDOT) took this facility by eminent domain for the purpose of widening Route 1 and reconstructing the Route 1/123 interchange. VDOT agreed to pay the Commissions the appraised value of \$1,066,280 of which \$533,140 is reported by the Commuter Rail Service Fund. At the time of the certificate of take, VDOT deposited \$799,223 with the Clerk of the Circuit Court of Prince William County for the benefit of the Commissions. Since the FTA provided a portion of the funding for the land and improvements, the Commissions must return 80% of the appraised value to the FTA or use the funds for another eligible federal project. The loss on the disposition of this facility of \$941,472 is recorded as an extraordinary item in the financial statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Liabilities

Revenue Bond

\$2,335,000, Series 2012 Revenue Bond, due in annual installments of \$215,000 to \$285,000 through October 2022, plus interest at 4.50% to 4.83%

\$ 1,735,000

Mandatory debt service requirements consist of the following:

Year(s) Ending June 30,	Principal	Interest	Total Required
2017	\$ 215,000	\$ 76,809	\$ 291,809
2018	225,000	66,884	291,884
2019	230,000	56,575	286,575
2020	245,000	45,428	290,428
2021	260,000	33,263	293,263
2022-2023	560,000	27,256	587,256
	<u>\$ 1,735,000</u>	<u>\$ 306,215</u>	<u>\$ 2,041,215</u>

Capitalized Lease - Gallery IV (11 cars)

	Total	PRTC Reporting Entity
\$25,100,000 capitalized lease obligation (PRTC reporting entity, \$12,550,000); \$965,679 due semi-annually (PRTC reporting entity, \$482,840), interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$17,449,718 (PRTC reporting entity, \$8,724,859)	<u>\$ 14,108,906</u>	<u>\$ 7,054,453</u>

Future minimum lease payments as of June 30, 2016 are as follows:

Year(s) Ending June 30,	Total	PRTC Reporting Entity
2017	\$ 1,931,357	\$ 965,679
2018	1,931,357	965,679
2019	1,931,357	965,678
2020	1,931,357	965,678
2021	1,931,357	965,678
2022-2025	7,725,428	3,862,714
Total minimum lease payments	17,382,213	8,691,106
Less amount representing interest	3,273,307	1,636,653
Present value of lease payments	<u>\$ 14,108,906</u>	<u>\$ 7,054,453</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Liabilities (Continued)

Capitalized Leases – Copiers

	Total	PRTC Reporting Entity
\$73,425 capitalized lease obligations; \$1,329 due monthly, interest at 9.39%, maturing in 2020; \$330 due monthly, interest at 11.73%, maturing in 2018, collateralized with three multifunction copiers with a carrying value of \$41,395 (PRTC reporting entity, \$20,698)	\$ 50,048	\$ 25,024

Future minimum lease payments as of June 30, 2016 are as follows:

Year Ending June 30,	Total	PRTC Reporting Entity
2017	\$ 19,908	\$ 9,954
2018	19,248	9,624
2019	15,948	7,974
2020	2,658	1,329
Total minimum lease payments	57,762	28,881
Less amount representing interest	7,714	3,857
Present value of lease payments	\$ 50,048	\$ 25,024

The following is a summary of long-term liability activity for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bond	\$ 1,940,000	\$ -	\$ 205,000	\$ 1,735,000	\$ 215,000
Unamortized premium	309,696	-	42,717	266,979	-
Capital leases	7,707,058	-	627,581	7,079,477	657,125
	\$ 9,956,754	\$ -	\$ 875,298	\$ 9,081,456	\$ 872,125

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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, 2016:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash and investments	\$ 12,588,714	\$ 26,617	\$ 12,615,331
Due from other governments, net	330,062	-	330,062
Grants and contributions	-	389,611	389,611
Cash and investments - insurance trust fund	-	5,193,378	5,193,378
	<u>\$ 12,918,776</u>	<u>\$ 5,609,606</u>	<u>\$ 18,528,382</u>

Unrestricted net position consists of the following as of June 30, 2016:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support future years' budgets	\$ 6,300,000	\$ -	\$ 6,300,000
Local match for federal/state grants	2,571,338	-	2,571,338
Total designations	<u>8,871,338</u>	<u>-</u>	<u>8,871,338</u>
Undesignated unrestricted net position	<u>14,153,770</u>	<u>40,256,028</u>	<u>54,409,798</u>
Total unrestricted net position	<u>\$ 23,025,108</u>	<u>\$ 40,256,028</u>	<u>\$ 63,281,136</u>

Note 8. Joint Venture – Virginia Railway Express

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

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 controls 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.

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

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Financial information from VRE's fiscal year 2016 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS STATEMENT OF NET POSITION

June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents	\$ 28,026,242
Accounts receivable:	
Due from PRTC – FTA and other	28,642,153
Commonwealth of Virginia grants	5,262,372
Trade receivables, net of allowance for doubtful accounts	3,628,407
Inventory	3,992,249
Prepaid expenses and other	138,636
Restricted cash, cash equivalents and investments	11,219,213
Total current assets	80,909,272
Noncurrent Assets	
Pension asset	213,799
Capital assets (net of \$146,463,913 accumulated depreciation and amortization)	343,924,549
Total noncurrent assets	344,138,348
Total assets	425,047,620
Deferred Outflows of Resources	
Pension plan	319,010
Total deferred outflows of resources	319,010
Total assets and deferred outflows of resources	\$ 425,366,630
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 10,758,825
Unearned revenue	1,687,689
Contract retainage	1,400,674
Current portion of:	
Capital lease obligations	1,314,250
Note payable	2,188,783
Total current liabilities	17,350,221
Noncurrent Liabilities	
Capital lease obligations	12,844,704
Note payable	53,440,159
Compensated absences	496,031
Total noncurrent liabilities	66,780,894
Total liabilities	84,131,115
Deferred Inflows of Resources	
Pension plan	182,256
Total deferred inflows of resources	182,256
Net Position	
Net investment in capital assets	274,136,653
Restricted for liability insurance plan	10,439,990
Restricted grants or contributions	779,223
Unrestricted assets	55,697,393
Total net position	341,053,259
Total liabilities, deferred inflows of resources and net position	\$ 425,366,630

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

**VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Year Ended June 30, 2016

Operating Revenues	\$ 37,936,965
Operating Expenses	<u>69,874,826</u>
Operating loss before depreciation and amortization	(31,937,861)
Depreciation and Amortization	<u>(16,953,565)</u>
Operating loss	<u>(48,891,426)</u>
Nonoperating Revenues (Expenses)	
Subsidies:	
Commonwealth of Virginia grants	16,572,077
Federal grants – with PRTC as grantee	13,917,534
Jurisdictional contributions	16,428,800
Regional transportation funding (NVTa)	542,671
Interest income:	
Operating funds	93,677
Insurance trust	69,444
Other restricted funds	197
Interest, amortization and other nonoperating expenses, net	<u>(3,384,762)</u>
Total nonoperating revenues, net	<u>44,239,638</u>
Capital Grants and Assistance	
Commonwealth of Virginia grants	9,826,429
Federal grants – with PRTC as grantee	22,125,460
Other local contributions	<u>851,659</u>
Total capital grants and assistance	<u>32,803,548</u>
Extraordinary Item	<u>(1,882,945)</u>
Change in net position	26,268,815
Net Position, beginning of year	<u>314,784,444</u>
Net Position, ending	<u><u>\$ 341,053,259</u></u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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, 2016, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	\$ 11,251,725
Other jurisdictional projects	<u>12,977,375</u>
	<u>\$ 24,229,100</u>

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 the passenger rail liability cap (currently at \$295,000,000) 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 \$163,000 at June 30, 2016, of which \$81,500 was included in the PRTC reporting entity. PRTC is indemnified from risk related to its bus/bus facility issues by virtue of its contract with First Transit, the third-party bus services provider.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 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 2006, all plan assets have been invested in the Department of the Treasury common pool. Activity in the Insurance Trust Fund for the year ended June 30, 2016 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1, 2015	\$ 10,434,495	\$ 5,217,248
Contribution to reserves	3,950,000	1,975,000
Insurance premiums paid	(3,966,626)	(1,983,313)
Investment income	69,444	34,722
Actuarial and administrative charges	(81,707)	(40,855)
Transfer to VRE for small liability claims	(18,849)	(9,424)
Ending balance, June 30, 2016	<u>\$ 10,386,757</u>	<u>\$ 5,193,378</u>

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

Note 11. Related Party Transactions

For the year ended June 30, 2016, 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, 2016 were \$20,425.

PRTC also offers a Governmental Money Purchase Plan (401a) to the Interim Executive Director and Interim Director of Planning and Operations for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2016 were \$39,133.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees.*
Hybrid Opt-In Election Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.	The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.	*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees
If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions they make.	Vesting Same as Plan 1.	Vesting <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. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contribution 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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<u>Exceptions to COLA Effective Dates:</u> 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.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage Eligible political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	17
Inactive members:	
Vested	18
Non-vested	26
Active elsewhere in VRS	7
Total inactive members	51
Active members	86
Total covered employees	154

Contributions

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

PRTC's contractually required contribution rate for the year ended June 30, 2016 was 6.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from PRTC were \$478,475 and \$460,763 for the years ended June 30, 2016 and 2015, respectively.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

B. Net Pension Asset

PRTC's net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions

The total pension liability for PRTC's retirement plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal Actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Mortality rates were based on the following:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non-U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non-Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic nominal return	8.33%

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Discount Rate

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

C. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balance at June 30, 2014	\$ 12,284,629	\$ 12,789,238	\$ (504,609)
Changes for the year:			
Service cost	743,258	-	743,258
Interest	850,266	-	850,266
Difference between expected and actual experience	92,275	-	92,275
Contributions – employer	-	460,763	(460,763)
Contributions – employee	-	494,240	(494,240)
Net investment income	-	603,590	(603,590)
Benefit payments, including refunds of employee contributions	(275,932)	(275,932)	-
Administrative expense	-	(7,442)	7,442
Other changes	-	(131)	131
Net changes	1,409,867	1,275,088	134,779
Balance at June 30, 2015	\$ 13,694,496	\$ 14,064,326	\$ (369,830)

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

C. Changes in the Net Pension Asset (Continued)

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension (asset) liability	\$ 1,647,795	\$ (369,830)	\$ (2,026,222)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued VRS financial report. Additional financial information supporting the preparation of the VRS Political Subdivision Plan Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is presented in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR is publicly available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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

For the year ended June 30, 2016, the Commission recognized pension expense of \$80,918. The Commission also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 315,267
Net difference between expected and actual experience	73,366	-
Employer contributions subsequent to the measurement date	478,475	-
Total	\$ 551,841	\$ 315,267

The \$478,475 reported as deferred outflows of resources related to pensions resulting from PRTC's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2017.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (107,190)
2018	(107,190)
2019	(107,191)
2020	79,670
	<u>\$ (241,901)</u>

Note 14. Contingencies and Contractual Commitments

Fuel Contractual Commitments

PRTC entered into contracts at various times in December 2014 through July 2015 to purchase fuel at set prices for delivery in July 2016 through June 2017. The total commitment is for 630,000 gallons of fuel at approximately \$1.3 million. The fuel will be used in the normal course of business and is not being purchased for resale.

Federal and State-Assisted Programs

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

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

At June 30, 2016, 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, 2016:

Stations and parking lots	\$ 2,243,252
Rail rolling stock	31,412,358
Maintenance and layover yards	1,125,176
Other administrative	1,983,352
Total	<u><u>\$ 36,764,138</u></u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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, 2016, annual track usage fees totaled approximately \$9,224,100, of which \$4,981,014 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately \$521,000, of which \$281,340 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 July 1, 2015. For the year ended June 30, 2016, costs for track access and equipment storage totaled approximately \$5,831,000, of which \$3,148,740 was recognized by the PRTC reporting entity. Costs for mid-day maintenance, utility, and other services totaled approximately \$4,332,000, of which \$2,339,280 was recognized by the PRTC reporting entity. Cost adjustments will be made in fiscal year 2017 to reflect changes to various published cost indices and the number of trains that have access to and are stored and serviced at the terminal. After October 1, 2015, charges for terminal access are determined in accordance with the cost-sharing arrangement for the Northeast Corridor passenger rail infrastructure mandated by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).

The Commissions signed a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning July 1, 2015. The cost of train operations and maintenance for the year ended June 30, 2016, based on an annual budget prepared in advance, was approximately \$19,828,000, of which \$10,707,120 is recognized by the PRTC reporting entity. Costs for fiscal year 2017 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index. A separate contract for maintenance of equipment and facilities will be in effect for the period beginning July 1, 2016.

Note 16. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	\$ -	\$ 36,042,570	\$ 36,042,570
Commuter Rail Service	(68,440)	-	(68,440)
Total transferred in	\$ (68,440)	\$ 36,042,570	\$ 35,974,130

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 17. Pending GASB Statements

At June 30, 2016, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will improve accounting and financial reporting by state and local governments for OPEB. It will also require the recognition of the entire OPEB liability and a comprehensive measure of OPEB expense. Statement No. 75 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, will improve the accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Statement No. 79 will be effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*, will address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement No. 82 will be effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

Note 18. Subsequent Events

VRE entered into contracts at various times from August 2016 through October 2016 to purchase fuel at set prices for delivery in September 2016 through March 2017. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 420,000 gallons of fuel at a cost of approximately \$660,000.

The first year of the Commissions' contract with Keolis Rail Services, Virginia LLC for maintenance of equipment and facilities went into effect on July 1, 2016 for a five year base term. The contract also provides for two subsequent five year option periods. The existing agreement with Keolis Rail Services, Virginia LLC for operations and maintenance was amended to remove the maintenance functions, effective July 1, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,	
	2014	2015
Contractually required contribution (CRC)	\$ 528,296	\$ 460,763
Contributions in relation to the CRC	528,296	460,763
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 6,856,560	\$ 7,617,414
Contributions as a percentage of covered-employee payroll	7.70%	6.05%

Notes to Schedule:

- (1) Valuation date: June 30, 2014
- (2) Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
- (3) Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20-29 years
Asset valuation method	5-year smoothed market
Cost-of-living adjustments	2.25%-2.50%
Projected salary increases	3.50%-5.35%, including inflation at 2.50%
Investment rate of return	7.0%, including inflation at 2.50%
- (4) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CHANGES IN NET PENSION ASSET – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,	
	2014	2015
Total Pension Liability		
Service cost	\$ 722,134	\$ 743,258
Interest	763,704	850,266
Differences between expected and actual experience	-	92,275
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)
Net change in total pension liability	1,263,313	1,409,867
Total pension liability - beginning	11,021,316	12,284,629
Total pension liability - ending (a)	<u>\$ 12,284,629</u>	<u>\$ 13,694,496</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 528,296	\$ 460,763
Contributions - employee	414,844	494,240
Net investment income	1,697,173	603,590
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)
Administrative expense	(8,482)	(7,442)
Other	89	(131)
Net change in plan fiduciary net position	2,409,395	1,275,088
Plan fiduciary net position - beginning	10,379,843	12,789,238
Plan fiduciary net position - ending (b)	<u>12,789,238</u>	<u>14,064,326</u>
PRTC's net pension asset - ending (a) - (b)	<u>\$ (504,609)</u>	<u>\$ (369,830)</u>
Plan fiduciary net position as a percentage of the total pension liability	104.11%	102.70%
Covered-employee payroll	\$ 6,856,560	\$ 7,617,414
PRTC's net pension asset as a percentage of covered - employee payroll	7.36%	4.86%

Notes to Schedule:

- (1) **Changes of benefit terms:** There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.
- (2) **Changes of assumptions:** The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:
 - a. Update mortality table
 - b. Adjustments to rates of service retirement for females
 - c. Decrease in rate of withdrawals for 3 through 9 years of service
 - d. Decrease in rates of disability
 - e. Reduce rates of salary increase by 0.25% per year
- (3) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, PRTC will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION – BUS SERVICE AND MEMBER JURISDICTIONS June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current Assets		
Cash and investments in bank	\$ 17,729,058	\$ 18,501,992
Receivables:		
Due from other governments	40,965,204	24,583,492
Due from Commuter Rail Service Fund	1,863,540	1,557,306
Miscellaneous	45,982	69,962
Prepaid expenses and other assets	46,813	40,595
Restricted assets:		
Cash and investments in pooled funds - member jurisdictions	12,588,714	27,183,064
Total current assets	73,239,311	71,936,411
Noncurrent Assets		
Net pension asset	156,031	236,729
Capital assets:		
Transportation equipment:		
Buses and related equipment	80,452,798	75,017,151
Less: accumulated depreciation	(56,952,213)	(52,481,484)
Transportation equipment, net	23,500,585	22,535,667
Land, buildings, and equipment:		
Land	6,639,270	6,639,270
Buildings	8,052,341	8,052,341
Building improvements	3,968,436	3,932,663
Construction in progress	3,572,531	6,931,165
Site improvements	1,430,513	1,435,093
Bus shelters	1,508,473	1,408,307
Vehicles	141,987	149,332
Furniture and equipment	2,524,672	522,912
Software and easement	3,530,098	934,712
Less: accumulated depreciation and amortization	(9,629,998)	(8,974,216)
Land, buildings and equipment, net	21,738,323	21,031,579
Total capital assets, net	45,238,908	43,567,246
Total noncurrent assets	45,394,939	43,803,975
Total assets	118,634,250	115,740,386
Deferred Outflows of Resources		
Pension plan	232,831	215,975
Total deferred outflows of resources	232,831	215,975
Total assets and deferred outflows of resources	\$ 118,867,081	\$ 115,956,361

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		2016	2015
Current Liabilities			
Accounts payable and other liabilities	\$	3,955,401	\$ 3,904,993
Accrued payroll and benefits		456,389	439,819
Accrued interest		20,417	22,231
Due to other governments		3,018,405	990,589
Due to Commuter Rail Service Fund		28,642,151	12,289,014
Unearned revenue		905,629	1,108,112
Compensated absences		27,242	376,185
Bond payable - current portion		215,000	205,000
Total current liabilities		37,240,634	19,335,943
Noncurrent Liabilities			
Compensated absences		525,644	482,516
Bond payable, net		1,786,979	2,044,696
Total noncurrent liabilities		2,312,623	2,527,212
Total liabilities		39,553,257	21,863,155
Deferred Inflows of Resources			
Pension plan		133,011	354,910
Total deferred inflows of resources		133,011	354,910
Net Position			
Net investment in capital assets		43,236,929	41,317,550
Restricted		12,918,776	29,710,725
Unrestricted		23,025,108	22,710,021
Total net position		79,180,813	93,738,296
Total liabilities, deferred inflows of resources and net position	\$	118,867,081	\$ 115,956,361

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUS SERVICE AND MEMBER JURISDICTIONS June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Motor fuel tax	\$ 18,704,192	\$ 24,832,142
Farebox	11,331,751	10,701,496
Advertising	50,801	191,261
Total operating revenues	30,086,744	35,724,899
Operating Expenses		
Direct transportation	24,229,100	17,477,799
Salaries and related benefits	4,654,303	4,822,572
Contractual services	23,103,612	22,671,944
Other services	1,622,126	1,465,127
Materials, supplies and minor equipment	761,917	309,944
Fuel	2,956,617	3,254,732
Total operating expenses	57,327,675	50,002,118
Operating loss before depreciation and amortization	(27,240,931)	(14,277,219)
Depreciation and amortization	(5,458,107)	(6,221,920)
Operating loss	(32,699,038)	(20,499,139)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	6,572,553	6,603,093
Federal grants	18,130,107	16,662,291
Investment income	60,781	29,668
Pass-through grants - member jurisdictions	(1,022)	(1,022)
Interest expense	(40,766)	(47,621)
Other revenue	706,798	537,880
Total nonoperating revenues, net	25,428,451	23,784,289
Capital Grants and Assistance		
Commonwealth of Virginia grants	5,027,415	979,444
Federal grants	23,652,537	20,113,380
Capital contributions	22,000	132,104
Total capital grants and assistance	28,701,952	21,224,928
Income before transfers and gain (loss) on disposal of assets	21,431,365	24,510,078
Transfers In	68,440	65,868
Transfers Out	(36,042,570)	(31,453,482)
Transfers, net	(35,974,130)	(31,387,614)
Gain (Loss) on Disposal of Assets	(14,718)	4,648
Change in net position	(14,557,483)	(6,872,888)
Net Position, beginning	93,738,296	100,611,184
Net Position, ending	\$ 79,180,813	\$ 93,738,296

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION – COMMUTER RAIL SERVICE June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current Assets		
Cash and investments in bank	\$ 15,034,604	\$ 18,086,015
Receivables:		
Due from Bus Service and Member Jurisdictions Fund	28,642,151	12,289,014
Trade receivables, net of allowance for doubtful accounts	1,169,604	954,976
Miscellaneous	1,120,217	736,413
Inventory	2,141,632	2,184,160
Prepaid expenses and other assets	74,371	68,854
Restricted cash, cash equivalents and investments	5,609,606	5,243,766
Total current assets	53,792,185	39,563,198
Noncurrent Assets		
Net pension asset	213,799	267,880
Capital assets:		
Transportation equipment:		
Rail rolling stock	132,377,538	124,647,981
Less: accumulated depreciation	(34,758,505)	(29,711,792)
Transportation equipment, net	97,619,033	94,936,189
Buildings and equipment:		
Construction in progress	6,948,336	14,520,293
Vehicles	69,155	53,600
Furniture, equipment and software	8,808,001	8,720,136
Equity in local properties	2,893,643	2,893,643
Facilities	51,747,275	51,224,980
Track and signal improvements	42,350,282	26,342,183
Less: accumulated depreciation and amortization	(38,473,452)	(35,086,488)
Buildings and equipment, net	74,343,240	68,668,347
Total capital assets, net	171,962,273	163,604,536
Total noncurrent assets	172,176,072	163,872,416
Total assets	225,968,257	203,435,614
Deferred Outflows of Resources		
Pension plan	319,010	244,793
Total deferred outflows of resources	319,010	244,793
Total assets and deferred outflows of resources	\$ 226,287,267	\$ 203,680,407

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		2016	2015
Current Liabilities			
Accounts payable and other liabilities	\$	1,804,125	\$ 1,992,547
Accrued expenses		2,670,476	2,636,323
Due to Bus Service and Member Jurisdictions Fund		1,863,540	1,557,306
Unearned revenue		905,358	868,440
Capital lease		657,125	627,581
Interest payable - capital lease		53,966	58,713
Retainage payable		700,337	736,437
Compensated absences		13,205	17,012
Total current liabilities		8,668,132	8,494,359
Noncurrent Liabilities			
Compensated absences		266,095	199,595
Capital lease		6,422,352	7,079,477
Total noncurrent liabilities		6,688,447	7,279,072
Total liabilities		15,356,579	15,773,431
Deferred Inflows of Resources			
Pension plan		182,256	401,615
Total deferred inflows of resources		182,256	401,615
Net Position			
Net investment in capital assets		164,882,798	155,897,478
Restricted for liability insurance plan		5,219,995	5,243,766
Restricted grants and contributions		389,611	-
Unrestricted		40,256,028	26,364,117
Total net position		210,748,432	187,505,361
Total liabilities, deferred inflows of resources and net position	\$	226,287,267	\$ 203,680,407

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – COMMUTER RAIL SERVICE June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Passenger revenues	\$ 20,222,410	\$ 20,555,297
Equipment rental and other	128,775	234,435
Total operating revenues	20,351,185	20,789,732
Operating Expenses		
Contract operations and maintenance	12,919,056	12,760,322
Other operations and maintenance	7,329,273	8,028,820
Property leases and access fees	8,140,982	8,019,766
Insurance	2,170,572	2,220,562
Marketing and sales	1,283,897	1,270,125
General and administrative	5,571,528	4,311,084
Total operating expenses	37,415,308	36,610,679
Operating loss before depreciation and amortization	(17,064,123)	(15,820,947)
Depreciation and Amortization	(8,476,782)	(7,695,597)
Operating loss	(25,540,905)	(23,516,544)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	11,251,725	11,268,359
Regional transportation funding	271,336	-
Investment income	85,073	19,261
Interest, amortization and other nonoperating expenses, net	(343,305)	(370,658)
Total nonoperating revenues, net	11,264,829	10,916,962
Capital Grants and Assistance		
Contribution from (to) NVTC	1,642,814	(7,173,178)
Other local contributions	843,675	1,065,522
Total capital grants and assistance, net	2,486,489	(6,107,656)
Loss before transfers, loss on disposal of assets and extraordinary item	(11,789,587)	(18,707,238)
Transfers Out	(68,440)	(65,868)
Transfers In	36,042,570	31,453,482
Transfers, net	35,974,130	31,387,614
Loss on Disposal of Assets	-	(30,146)
Extraordinary Item	(941,472)	-
Change in net position	23,243,071	12,650,230
Net Position, beginning	187,505,361	174,855,131
Net Position, ending	\$ 210,748,432	\$ 187,505,361

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS

Year Ended June 30, 2016

	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, 2015	\$ 4,800,483	\$ 764,726	\$ 2,638,957	\$ 7,835,322	\$ 5,624,269	\$ 8,046,968	\$ 29,710,725
Funds Received:							
Motor fuel tax	1,313,730	787,503	560,308	9,716,530	2,961,265	3,364,856	18,704,192
Transfer from PRTC (carryforward)	31,600	63,773	48,582	4,860,807	73,400	87,376	5,165,538
Other	-	100,711	-	-	-	-	100,711
Interest	9,395	357	7,242	8,197	8,992	22,727	56,910
Total funds received	1,354,725	952,344	616,132	14,585,534	3,043,657	3,474,959	24,027,351
Funds Disbursed:							
Direct transportation expenses:							
VRE operating and capital	439,366	766,491	576,699	5,309,674	2,855,607	1,303,888	11,251,725
Other jurisdictional projects	3,924,686	296,210	-	-	4,488,118	4,268,361	12,977,375
Transfers to PRTC:							
Administrative	30,700	21,600	13,000	229,700	71,100	135,100	501,200
OmniRide, OmniLink, capital improvement, marketing, vanpool	900	333,100	243,200	15,505,200	2,300	4,300	16,089,000
Total funds disbursed	4,395,652	1,417,401	832,899	21,044,574	7,417,125	5,711,649	40,819,300
Funds Available - June 30, 2016	\$ 1,759,556	\$ 299,669	\$ 2,422,190	\$ 1,376,282	\$ 1,250,801	\$ 5,810,278	\$ 12,918,776

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, 2016. Total funds available reconcile to amounts reported on the statement of net position as follows:

Cash and investments in pooled funds - member jurisdictions	\$ 12,588,714
Due from other governments - Motor fuel tax revenue receipts (see Note 4)	3,320,215
Due to other governments - member jurisdictions	(2,990,153)
	<u>\$ 12,918,776</u>

Note 2 - Expenses for other jurisdictional projects consist of:

Road improvements/maintenance, sidewalks	\$ 1,860,080	\$ -	\$ -	\$ -	\$ 4,030,729	\$ -	\$ 5,890,809
Station, other rail, and garage maintenance	160,895	-	-	-	-	-	160,895
Street signs, human services transportation, airport, bike trails,							
bus shelters, and professional services	472,590	-	-	-	110,249	-	582,839
Parking garage debt service, parking leases	471,121	296,210	-	-	-	-	767,331
FRED transit costs	960,000	-	-	-	347,140	400,041	1,707,181
Transportation salaries/benefits; debt service	-	-	-	-	-	3,868,320	3,868,320
	<u>\$ 3,924,686</u>	<u>\$ 296,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,488,118</u>	<u>\$ 4,268,361</u>	<u>\$ 12,977,375</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2016

State Granting Agency	State Grant Number	Expenses
<u>Direct Payments:</u>		
Virginia Department of Rail and Public Transportation:		
Formula Assistance	72016-32	\$ 5,070,161
Ridesharing Assistance	71016-11; 72516-08	216,000
Transportation Intern	71212-02; 71215-05; 71216-04	18,701
I-95 Transit and TDM Bus Services	71316-12; 71316-13	579,187
Vanpool Program	71413-06; 72513-02	557,631
Strategic Plan	71316-16	18,415
Capital - FY 09	72509-36	6,073
Capital - FY 12	73012-93; 73012-95; 73012-98	45,487
Capital - FY 13	73013-55	318
Capital - FY 14	72514-09; 73014-80; 73014-85	541,929
Capital - FY 15	73115-02	602
Capital - FY 15	73115-03	1,187
Capital - FY 15	73115-04	1,120,389
Capital - FY 15	73115-06	1,717
Capital - FY 15	73115-10	120,867
Capital - FY 15	73115-12	1,401
Capital - FY 15	73115-13	4,470
Capital - FY 15	73115-59	3,083,024
Capital - FY 16	73016-95	4,455
Capital - FY 16	73016-96	5,017
Capital - FY 16	73016-97	617
Capital - FY 16	73016-98	1,022
Capital - FY 16	73016-99	24,762
Capital - FY 16	73116-01	75,949
Capital - FY 16	73116-02	1,647
Capital - FY 16	73116-03	237
Capital - FY 16	73116-04	4,029
Capital - FY 16	73116-06	26,428
Capital - FY 16	73116-61	54,142
		<u>11,585,864</u>
<u>Pass-through Payments:</u>		
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)		<u>14,104</u>
Total State Awards Expended		<u><u>\$ 11,599,968</u></u>

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION:				
<u>Direct Payments:</u>				
Federal Transit Cluster:				
VA-05-0038	20.500		\$ -	\$ 17,462
VA-05-0041	20.500		-	86,010
VA-05-0042	20.500		-	389,869
VA-05-0048	20.500		-	2,303,575
TBD	20.500		-	15,400
Federal Transit - Capital Investment Grants				2,812,316
VA-90-X401	20.507		-	2,323
VA-95-X046	20.507		-	205,981
VA-95-X126	20.507		-	199,329
VA-95-X149	20.507		-	580,057
VA-90-X435	20.507		-	10,368
VA-2016-XXX (Pending)	20.507		-	1,853,204
VA-90-X269	20.507		-	240,794
VA-90-X307	20.507		-	128,894
VA-90-X352	20.507		-	57,358
VA-90-X368	20.507		-	102,957
VA-90-X401	20.507		-	3,177,262
VA-90-X435	20.507		-	2,209,893
VA-95-X046	20.507		-	1,766,359
VA-95-X137	20.507		-	7,663,299
VA-95-X149	20.507		-	236,956
Federal Transit - Formula Grants				18,435,034
VA-2016-014 (Pending)	20.525		-	18,454,287
Federal Transit - State of Good Repair Grants Program				18,454,287
Total Federal Transit Cluster				39,701,637
<u>Pass-through Payments:</u>				
Metropolitan Washington Council of Governments:				
TIGER - ARRA	20.932	DC-78-0001	-	1,105,545
Virginia Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction (Federal Highway)	20.205	CM-96A-9-084	-	56,416
Highway Planning and Construction (Federal Highway)	20.205	5A01(236)	-	919,046
Total Highway Planning and Construction Cluster				975,462
Total Federal Awards Expended				\$ 41,782,644

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of PRTC under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PRTC, it is not intended to and does not present the financial position or changes in net position of PRTC.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance 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.

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.

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

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 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 Cluster and Highway Planning and Construction Cluster.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. PRTC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through identifying numbers are presented where available and applicable.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the business-type activities and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 21, 2016.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

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

The Commission's Response to Finding

The Commission's response to the material weakness identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
November 21, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 *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, 2016. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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.

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
November 21, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?	<u> ✓ </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> ✓ </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> ✓ </u> No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<u> </u> Yes	<u> ✓ </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> ✓ </u> None Reported

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
2 CFR 200.516(a)

<u> </u> Yes	<u> ✓ </u> No
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.500	Federal Transit – Capital Investment Grants
20.507	Federal Transit – Formula Grants
20.525	Federal Transit – State of Good Repair Grants Program

Federal Transit Cluster:

20.500	Federal Transit – Capital Investment Grants
20.507	Federal Transit – Formula Grants
20.525	Federal Transit – State of Good Repair Grants Program

Dollar threshold used to distinguish between type A and type B programs \$ 1,253,479Auditee qualified as low-risk auditee? Yes ✓ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

2016-001: Material Weakness Related to Administrative Rights to Accounting System (MUNIS)

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

Context: 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.

Cause: Due to implementation of a new accounting system, MUNIS, 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.

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

Questioned Costs: Undeterminable.

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.

Views of Responsible Officials: Management is in agreement with the finding.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

CORRECTIVE ACTION PLAN

Year Ended June 30, 2016

Identifying Number:

2016-001: Material Weakness Related to Administrative Rights to Accounting System (MUNIS)

Finding:

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

Corrective Action Taken or Planned:

Management reviewed the PBMares, LLP report and provided a response at the end of fiscal year 2016, indicating which recommendations management concurred with and that would be implemented. PBMares, LLP was accepting of management's proposed changes. Changes to MUNIS access rights were made within the first three months of fiscal year 2017, which should eliminate this finding going forward.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

Identifying Number: 15-01

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. Management is developing an aggressive plan to address these access rights.

PBMares, LLP performed an IT review of MUNIS user access to provide recommendations about how user access can be modified to enhance the control environment. Management has reviewed the report and concurs with many of the recommendations. There were a number of items that management did not agree with the auditor's recommendation and will require further discussion with PBMares, LLP. An implementation schedule will be developed to systematically address the various roles and job functions within MUNIS.