

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2017



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, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Commission, as of June 30, 2017, 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 50-52, 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 20, 2017 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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 20, 2017

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, 2017. 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, 2017, PRTC's assets exceeded liabilities by \$289,869,978. Of this total, \$78,051,717 is for bus service and member jurisdictions and \$211,818,261 is for commuter rail service.

The net position of PRTC decreased by \$59,267 for fiscal year 2017. This is the net effect of a \$1,129,096 decrease from bus service and member jurisdictions and a \$1,069,829 increase from commuter rail service.

As of June 30, 2017, PRTC's unrestricted net position is \$64,913,708. Of this total, \$25,400,628 is for bus service and member jurisdictions and \$39,513,080 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, 2017 and 2016:

Summary of Net Position As of June 30

| | Bus Service and Member Jurisdictions | | Commuter Rail Service | | Total | |
|---|---|---------------|--------------------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Assets and deferred outflows of resources: | | | | | | |
| Current assets | \$ 44,076,930 | \$ 44,597,160 | \$ 49,342,396 | \$ 51,928,645 | \$ 93,419,326 | \$ 96,525,805 |
| Capital assets, net | 42,865,199 | 45,238,908 | 173,102,668 | 171,962,273 | 215,967,867 | 217,201,181 |
| Net pension asset | - | 156,031 | - | 213,799 | - | 369,830 |
| Deferred outflows of resources | 455,857 | 232,831 | 646,262 | 319,010 | 1,102,119 | 551,841 |
| Total assets and deferred outflows of resources | 87,397,986 | 90,224,930 | 223,091,326 | 224,423,727 | 310,489,312 | 314,648,657 |
| Liabilities and deferred inflows of resources: | | | | | | |
| Current liabilities | 7,189,672 | 8,598,483 | 4,944,420 | 6,804,592 | 12,134,092 | 15,403,075 |
| Noncurrent liabilities | 2,156,597 | 2,312,623 | 6,328,645 | 6,688,447 | 8,485,242 | 9,001,070 |
| Deferred inflows of resources | - | 133,011 | - | 182,256 | - | 315,267 |
| Total liabilities and deferred inflows of resources | 9,346,269 | 11,044,117 | 11,273,065 | 13,675,295 | 20,619,334 | 24,719,412 |
| Net Position: | | | | | | |
| Net investment in capital assets | 41,120,936 | 43,236,929 | 166,680,316 | 164,882,798 | 207,801,252 | 208,119,727 |
| Restricted | 11,530,153 | 12,918,776 | 5,624,865 | 5,609,606 | 17,155,018 | 18,528,382 |
| Unrestricted | 25,400,628 | 23,025,108 | 39,513,080 | 40,256,028 | 64,913,708 | 63,281,136 |
| Total net position | \$ 78,051,717 | \$ 79,180,813 | \$ 211,818,261 | \$ 210,748,432 | \$ 289,869,978 | \$ 289,929,245 |

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 \$289.8 million, a decrease of \$.059 million over the previous fiscal year. The largest portion of net position, \$207.8 million or 71.7%, 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, \$17.2 million or 5.9%, 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 \$3.1 million or 3.2% from the prior year, primarily due to increased cash and investments of \$11.0 million offset by decreased grant and other receivables of \$14.1 million.

Capital assets, net of accumulated depreciation and amortization, decreased approximately \$1.2 million or 0.6 % primarily as the result of bus and rail rolling stock additions and bus overhauls less the sale of older buses and rail rolling stock.

Statement of Revenues, Expenses and Changes in Net Position

The following table shows the revenues and expenses and the change in net position of the PRTC reporting entity for the fiscal years ended June 30, 2017 and 2016:

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

| | Bus Service and Member Jurisdictions | | Commuter Rail Service | | Total | |
|----------------------------------|---|---------------|--------------------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Operating revenues | \$ 31,709,101 | \$ 30,086,744 | \$ 22,893,674 | \$ 20,351,185 | \$ 54,602,775 | \$ 50,437,929 |
| Nonoperating revenues | 28,679,010 | 25,470,239 | 12,178,716 | 11,608,134 | 40,857,726 | 37,078,373 |
| Capital grants & assistance, net | 18,912,076 | 28,701,952 | (16,188,177) | 2,486,489 | 2,723,899 | 31,188,441 |
| Transfers, net | (31,077,499) | (35,974,130) | 31,077,499 | 35,974,130 | - | - |
| Total revenues | 48,222,688 | 48,284,805 | 49,961,712 | 70,419,938 | 98,184,400 | 118,704,743 |
| Expenses: | | | | | | |
| Operating expenses | 42,976,995 | 57,327,675 | 39,709,755 | 37,415,308 | 82,686,750 | 94,742,983 |
| Depreciation and amortization | 6,342,104 | 5,458,107 | 8,868,587 | 8,476,782 | 15,210,691 | 13,934,889 |
| Nonoperating expenses | 32,685 | 56,506 | 313,541 | 343,305 | 346,226 | 399,811 |
| Extraordinary item | - | - | - | 941,472 | - | 941,472 |
| Total expenses | 49,351,784 | 62,842,288 | 48,891,883 | 47,176,867 | 98,243,667 | 110,019,155 |
| Change in net position | (1,129,096) | (14,557,483) | 1,069,829 | 23,243,071 | (59,267) | 8,685,588 |
| Net position, beginning | 79,180,813 | 93,738,296 | 210,748,432 | 187,505,361 | 289,929,245 | 281,243,657 |
| Net position, ending | \$ 78,051,717 | \$ 79,180,813 | \$ 211,818,261 | \$ 210,748,432 | \$ 289,869,978 | \$ 289,929,245 |

For the fiscal year ended June 30, 2017, revenues totaled \$98.2 million, compared to \$118.7 million in the preceding year, a decrease of \$20.5 million or 17.3%. Expenses decreased by \$11.8 million or 10.7%. A discussion of the key components of these changes follows.

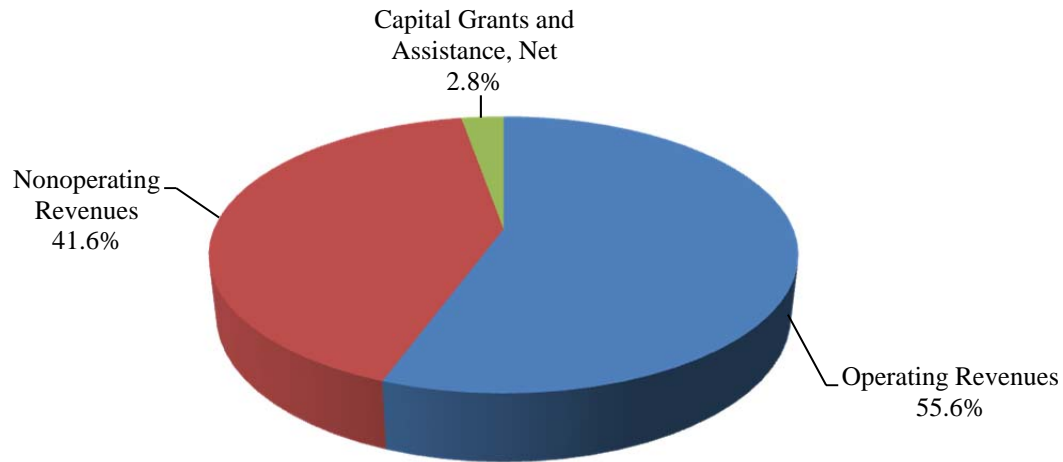
Operating revenues increased \$4.2 million or 8.3% from the prior year, primarily the result of an increase in motor fuel tax revenue and passenger revenue. Motor fuel tax revenue increased approximately \$1.8 million or 9.7% and passenger revenue increased approximately \$2.3 million or 7.3%.

Nonoperating revenues increased by \$3.8 million or 10.2% from the prior year, primarily the result of federal and state nonoperating grant revenue. Federal nonoperating grant revenue increased by \$1.7 million and state nonoperating grant revenue increased by \$0.9 million.

Net capital grants and assistance decreased by \$28.5 million, which is attributable to less bus and rail service related federal capital grants for fiscal year 2017 compared to fiscal year 2016. In addition, the decrease is also due to the change in the contribution to/from NVTC as a result of allocating rail service between PRTC and NVTC for financial reporting purposes. Fiscal year 2017 reflects a contribution to NVTC of \$16.5 million while fiscal year 2016 reflects a contribution from NVTC of \$1.6 million.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2017.

FY 2017 Revenues



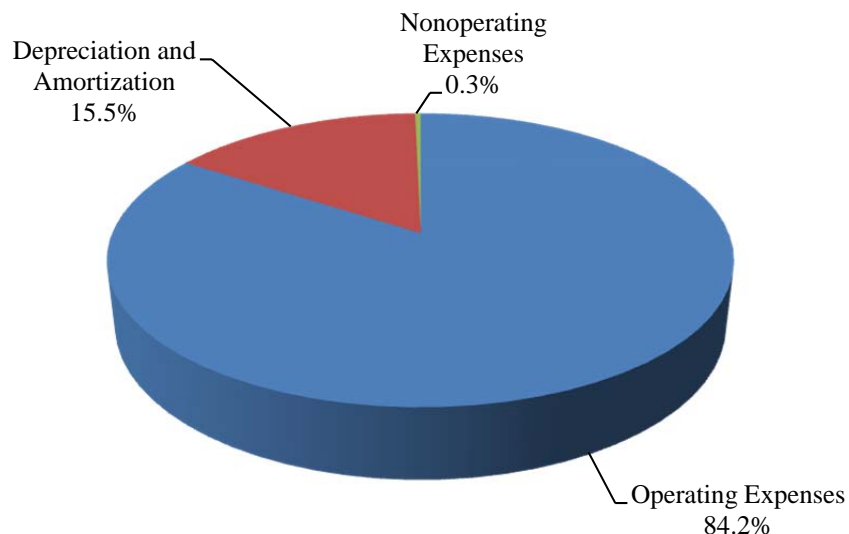
Operating expenses decreased by \$12.1 million or 12.7%.

For the Bus Service and Member Jurisdictions Fund, operating expenses decreased by \$14.3 million, primarily due to direct transportation expenses and fuel. Direct transportation expenses, which represent the use of jurisdictional motor fuel tax funds for the VRE subsidy as well as other jurisdictional transportation projects independent of PRTC, decreased by \$13.0 million, while fuel expenses decreased by \$0.93 million.

For the Commuter Rail Service fund, operating expenses increased by \$2.3 million or 6.1%. PRTC's share of the reporting entity remained approximately the same as the previous year at 54%. Contract operations and maintenance increased by \$1.0 million and property lease and access fees increased by \$0.59 million, reflecting the first full year addition of a new train and regular contractual increases. Other operations and maintenance costs increased by \$0.44 million due primarily to an increase in asset management maintenance expenses.

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2017.

FY 2017 Expenses



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2017 and 2016 are as follows:

| | Bus Service and Member Jurisdictions | | Commuter Rail Service | | Total | |
|--|---|----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Buses and related equipment | \$ 78,422,864 | \$ 80,452,798 | \$ - | \$ - | \$ 78,422,864 | \$ 80,452,798 |
| Rail rolling stock | - | - | 135,474,545 | 132,377,538 | 135,474,545 | 132,377,538 |
| 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 | 4,056,814 | 3,968,436 | - | - | 4,056,814 | 3,968,436 |
| Construction in progress | 3,373,911 | 3,572,531 | 11,952,082 | 6,948,336 | 15,325,993 | 10,520,867 |
| Site improvements | 1,430,513 | 1,430,513 | - | - | 1,430,513 | 1,430,513 |
| Bus shelters | 1,497,616 | 1,508,473 | - | - | 1,497,616 | 1,508,473 |
| Vehicles | 141,987 | 141,987 | 83,711 | 69,155 | 225,698 | 211,142 |
| Furniture and equipment | 2,523,153 | 2,524,672 | - | - | 2,523,153 | 2,524,672 |
| Software and easement | 3,920,724 | 3,530,098 | - | - | 3,920,724 | 3,530,098 |
| Facilities | - | - | 51,740,443 | 51,747,275 | 51,740,443 | 51,747,275 |
| Track and signal improvements | - | - | 41,742,675 | 42,350,282 | 41,742,675 | 42,350,282 |
| Furniture, equipment and software | - | - | 8,838,409 | 8,808,001 | 8,838,409 | 8,808,001 |
| Equity in property of others | - | - | 2,893,643 | 2,893,643 | 2,893,643 | 2,893,643 |
| | 110,059,193 | 111,821,119 | 252,725,508 | 245,194,230 | 362,784,701 | 357,015,349 |
| Less accumulated depreciation and amortization | 67,193,994 | 66,582,211 | 79,622,840 | 73,231,957 | 146,816,834 | 139,814,168 |
| Total capital assets, net | \$ 42,865,199 | \$ 45,238,908 | \$ 173,102,668 | \$ 171,962,273 | \$ 215,967,867 | \$ 217,201,181 |

PRTC's investment in capital assets as of June 30, 2017, amounted to \$216.0 million (net of accumulated depreciation and amortization), which represents a decrease of \$1.2 million or .57%.

For bus service and member jurisdictions, two OmniRide buses were overhauled, five new OmniRide buses were delivered, and nine OmniRide and six OmniLink buses were sold during fiscal year 2017. The new buses and the overhaul-related costs combined amounted to \$3.3 million.

For commuter rail service, five Gallery railcars (\$5.57 million) were placed into service and seven Gallery railcars were sold in fiscal year 2017.

The major additions to construction in progress for commuter rail service during the fiscal year were related to acquisition of five new Gallery railcars (\$5.2 million), ongoing work towards implementation of Positive Train Control (PTC) (\$1.4 million); work toward both the L'Enfant Storage Track North (\$0.75 million) and L'Enfant Storage Track South (\$0.7 million) and development work for the Mid-Day Storage Yard project (\$0.5 million).

Debt Administration

At June 30, 2017, PRTC had an outstanding principal balance of \$1,520,000 for its Series 2012 Revenue Bond with the Virginia Resources Authority.

PRTC's portion of debt for the commuter rail service is \$6.4 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, 2017

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|---|---|----------------------------------|-----------------------|
| Current Assets | | | |
| Cash and investments in bank | \$ 20,134,110 | \$ 26,398,804 | \$ 46,532,914 |
| Receivables: | | | |
| Due from other governments | 27,458,534 | - | 27,458,534 |
| Trade receivables, net of allowance for doubtful accounts | - | 1,084,619 | 1,084,619 |
| Miscellaneous | 32,377 | 598,398 | 630,775 |
| Internal balances | (13,445,757) | 13,445,757 | - |
| Inventory | - | 2,112,213 | 2,112,213 |
| Prepaid expenses and other assets | 30,202 | 77,740 | 107,942 |
| Restricted assets: | | | |
| Cash and investments in pooled funds - member jurisdictions | 9,867,464 | - | 9,867,464 |
| Cash, cash equivalents and investments | - | 5,624,865 | 5,624,865 |
| Total current assets | 44,076,930 | 49,342,396 | 93,419,326 |
| Noncurrent Assets | | | |
| Capital assets: | | | |
| Transportation equipment: | | | |
| Buses and related equipment | 78,422,864 | - | 78,422,864 |
| Rail rolling stock | - | 135,474,545 | 135,474,545 |
| Less: accumulated depreciation | (55,871,839) | (37,593,600) | (93,465,439) |
| Transportation equipment, net | 22,551,025 | 97,880,945 | 120,431,970 |
| Land, buildings and equipment: | | | |
| Land | 6,639,270 | - | 6,639,270 |
| Buildings | 8,052,341 | - | 8,052,341 |
| Building improvements | 4,056,814 | - | 4,056,814 |
| Construction in progress | 3,373,911 | 11,952,082 | 15,325,993 |
| Site improvements | 1,430,513 | - | 1,430,513 |
| Bus shelters | 1,497,616 | - | 1,497,616 |
| Vehicles | 141,987 | 83,711 | 225,698 |
| Furniture and equipment | 2,523,153 | - | 2,523,153 |
| Software and easement | 3,920,724 | - | 3,920,724 |
| Facilities | - | 51,740,443 | 51,740,443 |
| Track and signal improvements | - | 41,742,675 | 41,742,675 |
| Furniture, equipment and software | - | 8,838,409 | 8,838,409 |
| Equity in property of others | - | 2,893,643 | 2,893,643 |
| Less: accumulated depreciation and amortization | (11,322,155) | (42,029,240) | (53,351,395) |
| Land, buildings and equipment, net | 20,314,174 | 75,221,723 | 95,535,897 |
| Total capital assets, net | 42,865,199 | 173,102,668 | 215,967,867 |
| Total noncurrent assets | 42,865,199 | 173,102,668 | 215,967,867 |
| Deferred Outflows of Resources | | | |
| Pension plan | 455,857 | 646,262 | 1,102,119 |
| Total deferred outflows of resources | 455,857 | 646,262 | 1,102,119 |
| Total assets and deferred outflows of resources | \$ 87,397,986 | \$ 223,091,326 | \$ 310,489,312 |

See Notes to Financial Statements.

| LIABILITIES AND NET POSITION | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|---|---|----------------------------------|-----------------------|
| Current Liabilities | | | |
| Accounts payable and other liabilities | \$ 3,345,062 | \$ 941,960 | \$ 4,287,022 |
| Accrued expenses | - | 1,970,218 | 1,970,218 |
| Accrued payroll and benefits | 574,317 | - | 574,317 |
| Accrued interest | 17,987 | 49,000 | 66,987 |
| Due to other governments | 1,870,914 | - | 1,870,914 |
| Unearned revenue | 966,079 | 987,515 | 1,953,594 |
| Capital leases | - | 687,751 | 687,751 |
| Compensated absences | 190,313 | 16,748 | 207,061 |
| Retainage payable | - | 291,228 | 291,228 |
| Bond payable | 225,000 | - | 225,000 |
| Total current liabilities | 7,189,672 | 4,944,420 | 12,134,092 |
| Noncurrent Liabilities | | | |
| Compensated absences | 417,681 | 282,620 | 700,301 |
| Net pension liability | 219,653 | 311,424 | 531,077 |
| Capital leases | - | 5,734,601 | 5,734,601 |
| Bond payable, net | 1,519,263 | - | 1,519,263 |
| Total noncurrent liabilities | 2,156,597 | 6,328,645 | 8,485,242 |
| Total liabilities | 9,346,269 | 11,273,065 | 20,619,334 |
| Net Position | | | |
| Net investment in capital assets | 41,120,936 | 166,680,316 | 207,801,252 |
| Restricted | 11,530,153 | 5,235,253 | 16,765,406 |
| Restricted grants and contributions | - | 389,612 | 389,612 |
| Unrestricted | 25,400,628 | 39,513,080 | 64,913,708 |
| Total net position | 78,051,717 | 211,818,261 | 289,869,978 |
| Total liabilities and net position | \$ 87,397,986 | \$ 223,091,326 | \$ 310,489,312 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Year Ended June 30, 2017

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|--|--|--------------------------|-----------------------|
| Operating Revenues | | | |
| Motor fuel tax | \$ 20,516,891 | \$ - | \$ 20,516,891 |
| Farebox and passenger | 11,116,014 | 22,731,512 | 33,847,526 |
| Advertising | 76,196 | - | 76,196 |
| Equipment rental and other | - | 162,162 | 162,162 |
| Total operating revenues | 31,709,101 | 22,893,674 | 54,602,775 |
| Operating Expenses | | | |
| Direct transportation | 11,238,624 | - | 11,238,624 |
| Salaries and related benefits | 5,030,897 | - | 5,030,897 |
| Contractual services | 22,479,512 | - | 22,479,512 |
| Other services | 1,773,516 | - | 1,773,516 |
| Materials, supplies and minor equipment | 432,894 | - | 432,894 |
| Fuel | 2,021,552 | - | 2,021,552 |
| Contract operations and maintenance | - | 13,910,697 | 13,910,697 |
| Other operations and maintenance | - | 7,774,833 | 7,774,833 |
| Property leases and access fees | - | 8,729,346 | 8,729,346 |
| Insurance | - | 2,134,811 | 2,134,811 |
| Marketing and sales | - | 1,361,404 | 1,361,404 |
| General and administrative | - | 5,798,664 | 5,798,664 |
| Total operating expenses | 42,976,995 | 39,709,755 | 82,686,750 |
| Operating loss before depreciation and amortization | (11,267,894) | (16,816,081) | (28,083,975) |
| Depreciation and amortization | (6,342,104) | (8,868,587) | (15,210,691) |
| Operating loss | (17,609,998) | (25,684,668) | (43,294,666) |
| Nonoperating Revenues (Expenses) | | | |
| Jurisdictional contributions | - | 11,743,049 | 11,743,049 |
| Commonwealth of Virginia grants | 7,431,369 | - | 7,431,369 |
| Federal grants | 19,825,301 | - | 19,825,301 |
| Regional transportation funding | - | 230,944 | 230,944 |
| Investment income | 117,015 | 202,973 | 319,988 |
| Pass-through grants - member jurisdictions | (1,022) | - | (1,022) |
| Interest, amortization and other nonoperating expenses, net | (31,663) | (313,541) | (345,204) |
| Other revenue | 1,216,218 | - | 1,216,218 |
| Total nonoperating revenues, net | 28,557,218 | 11,863,425 | 40,420,643 |
| Capital Grants and Assistance | | | |
| Commonwealth of Virginia grants | 3,108,838 | - | 3,108,838 |
| Federal grants | 15,803,238 | - | 15,803,238 |
| Regional transportation funding | - | 325,581 | 325,581 |
| Contribution to NVTC | - | (16,513,758) | (16,513,758) |
| Total capital grants and assistance, net | 18,912,076 | (16,188,177) | 2,723,899 |
| Income (loss) before transfers and gain on disposal of assets | 29,859,296 | (30,009,420) | (150,124) |
| Transfers, net | (31,077,499) | 31,077,499 | - |
| Gain on Disposal of Assets | 89,107 | 1,750 | 90,857 |
| Change in net position | (1,129,096) | 1,069,829 | (59,267) |
| Net Position, beginning | 79,180,813 | 210,748,432 | 289,929,245 |
| Net Position, ending | \$ 78,051,717 | \$ 211,818,261 | \$ 289,869,978 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|--|--|--------------------------|---------------------|
| Cash Flows from Operating Activities | | | |
| Receipts from motor fuel tax | \$ 20,307,243 | \$ - | \$ 20,307,243 |
| Receipts from customers | 12,095,480 | 23,078,088 | 35,173,568 |
| Receipts from advertising | 76,196 | - | 76,196 |
| Payments to suppliers | (26,698,927) | (37,141,012) | (63,839,939) |
| Payments to member jurisdictions | (12,361,603) | - | (12,361,603) |
| Payments to employees | (4,004,231) | (2,907,834) | (6,912,065) |
| Net cash used in operating activities | (10,585,842) | (16,970,758) | (27,556,600) |
| Cash Flows from Capital and Related Financing Activities | | | |
| Interest payments on revenue bond | (76,809) | - | (76,809) |
| Principal payments on revenue bond | (215,000) | - | (215,000) |
| Interest payments on capital leases | - | (316,434) | (316,434) |
| Principal payments on capital leases | - | (657,125) | (657,125) |
| Proceeds from sale of assets | 89,509 | 1,750 | 91,259 |
| Contribution to NVTC | - | (16,513,758) | (16,513,758) |
| Local capital contribution | | 789,568 | 789,568 |
| Purchase of buses and related equipment | (3,610,646) | - | (3,610,646) |
| Acquisition of capital assets | (358,151) | (10,818,096) | (11,176,247) |
| Net cash used in capital and related financing activities | (4,171,097) | (27,514,095) | (31,685,192) |
| Cash Flows from Noncapital Financing Activities | | | |
| Federal and state grants bus and commuter rail services | 58,495,143 | - | 58,495,143 |
| Governmental subsidies | - | 12,053,074 | 12,053,074 |
| Interfund transfers | (43,640,541) | 43,604,541 | (36,000) |
| Payments for jurisdiction grant - related expenditures | (1,022) | - | (1,022) |
| Net cash provided by noncapital financing activities | 14,853,580 | 55,657,615 | 70,511,195 |
| Cash Flows From Investing Activities | | | |
| Investment income | 117,015 | 206,697 | 323,712 |
| Other revenues | (529,854) | - | (529,854) |
| Net cash provided by (used in) investing activities | (412,839) | 206,697 | (206,142) |
| Increase (Decrease) in cash and cash equivalents | (316,198) | 11,379,459 | 11,063,261 |
| Cash and Cash Equivalents | | | |
| Beginning | 30,317,772 | 20,644,210 | 50,961,982 |
| Ending | \$ 30,001,574 | \$ 32,023,669 | \$ 62,025,243 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS (Continued) Year Ended June 30, 2017

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|---|--|--------------------------|------------------------|
| Reconciliation of Operating Loss to Net Cash Used in | | | |
| Operating Activities: | | | |
| Operating loss | \$ (17,609,998) | \$ (25,684,668) | \$ (43,294,666) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 6,342,104 | 8,868,587 | 15,210,691 |
| Pension benefit | 19,647 | 15,715 | 35,362 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Due from other governments | 508,038 | - | 508,038 |
| Miscellaneous receivables | 13,028 | 16,685 | 29,713 |
| Prepaid expenses and other assets | 16,611 | (3,205) | 13,406 |
| Trade receivables | - | 87,571 | 87,571 |
| Inventory | - | 34,154 | 34,154 |
| Increase (decrease) in: | | | |
| Accounts payable and other liabilities | (8,064) | (385,754) | (393,818) |
| Accrued payroll and benefits | 1,007,019 | - | 1,007,019 |
| Due to other governments | (1,122,979) | - | (1,122,979) |
| Unearned revenue | 248,752 | 80,157 | 328,909 |
| Net cash used in operating activities | \$ (10,585,842) | \$ (16,970,758) | \$ (27,556,600) |
| Schedule of Noncash Capital Activities: | | | |
| Capital assets acquired through: | | | |
| Accounts payable | \$ - | \$ 313,524 | \$ 313,524 |
| Accrued expenses | - | 1,281,623 | 1,281,623 |

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 | - |
| | <hr/> 17 | <hr/> 8 |

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

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

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 internally 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, Commonwealth of Virginia and regional grants.

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 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 \$9,867,464 at June 30, 2017 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 \$5,624,865 at June 30, 2017 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 \$114,000 at June 30, 2017.

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 three items that qualify for reporting in this category. Accordingly, pension contributions subsequent to the measurement date, net difference between projected and actual earnings on pension plan investments, and net difference between expected and actual experience 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 had no items that qualify for reporting in this category for fiscal year 2017.

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)

Net position: Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position caption “net investment in capital assets” consists of capital assets, net of accumulated depreciation and amortization, reduced by outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by PRTC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

PRTC first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 20, 2017, which was the date the financial statements were available to be issued.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments

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

Investments: State statutes authorize local governments and other public bodies to invest in obligations of the United States or its agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers’ acceptances, repurchase agreements and the 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. PRTC’s investments in the LGIP are stated at amortized cost and classified as cash and cash equivalents. 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, 2017, PRTC had \$5,208,434 invested in the Insurance Trust.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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 an external investment pool classified in accordance with GASB Statement No. 79.

As of June 30, 2017, 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 | \$ 20,195,000 | \$ - | \$ 20,195,000 | \$ 20,195,000 | \$ 20,195,000 |
| LGIP | - | 21,062,000 | 21,062,000 | 21,062,000 | 21,062,000 |
| | 20,195,000 | 21,062,000 | 41,257,000 | 41,257,000 | 41,257,000 |
| Restricted: | | | | | |
| Insurance trust fund - pooled funds | - | 5,208,434 | 5,208,434 | 5,208,434 | 5,208,434 |
| LGIP | 9,867,464 | 416,431 | 10,283,895 | 10,283,895 | 10,283,895 |
| | 9,867,464 | 5,624,865 | 15,492,329 | 15,492,329 | 15,492,329 |
| | \$ 30,062,464 | \$ 26,686,865 | \$ 56,749,329 | \$ 56,749,329 | \$ 56,749,329 |

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 measurement as of June 30, 2017:

- Sweep Account of \$20,195,000 is valued using quoted market prices (Level 2 inputs).

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:

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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 | \$ 1,310,851 |
| Prince William County | 215,280 |
| City of Manassas | 114,095 |
| City of Manassas Park | 2,319,487 |
| City of Fredericksburg | 1,850,114 |
| Spotsylvania County | 4,057,637 |
| | <u>\$ 9,867,464</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 | \$ 3,502,630 |
| Virginia Department of Taxation - motor fuel tax receipts | 27,233 |
| Virginia Department of Rail and Public Transportation | 1,295,339 |
| Federal Transit Administration | 21,610,227 |
| Washington Metropolitan Area Transit Authority | 806,228 |
| Virginia Department of Transportation | 57,485 |
| Northern Virginia Transportation Commission | 155,375 |
| Prince William County | 2,400 |
| City of Manassas | 1,617 |
| | <hr/> |
| | \$ 27,458,534 |
| | <hr/> |

Amounts due to other governments are as follows:

| | Bus Service and Member Jurisdictions |
|---|--|
| Spotsylvania County | \$ 997,331 |
| City of Fredericksburg | 869,843 |
| Virginia Department of Rail and Public Transportation | 3,740 |
| | <hr/> |
| | \$ 1,870,914 |
| | <hr/> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2017 are as follows:

| | Balance July 1, 2016 | Increases | Decreases | Transfers | Balance June 30, 2017 |
|--|-------------------------|---------------------|---------------------|--------------------|--------------------------|
| Capital assets not being depreciated or amortized: | | | | | |
| Land | \$ 6,639,270 | \$ - | \$ - | \$ - | \$ 6,639,270 |
| Construction in progress | 10,520,867 | 10,582,152 | - | (5,777,026) | 15,325,993 |
| Total capital assets not being depreciated or amortized | 17,160,137 | 10,582,152 | - | (5,777,026) | 21,965,263 |
| Capital assets being depreciated and amortized: | | | | | |
| Buses and related equipment | 80,452,798 | 3,610,646 | (5,640,580) | - | 78,422,864 |
| Rail rolling stock | 132,377,538 | - | (2,477,704) | 5,574,711 | 135,474,545 |
| Buildings | 8,052,341 | - | - | - | 8,052,341 |
| Building improvements | 3,968,436 | 93,729 | (5,351) | - | 4,056,814 |
| Site improvements | 1,430,513 | - | - | - | 1,430,513 |
| Bus shelters | 1,508,473 | 22,839 | (61,030) | 27,334 | 1,497,616 |
| Vehicles | 211,142 | 14,556 | - | - | 225,698 |
| Furniture and equipment | 2,524,672 | 22,243 | (23,762) | - | 2,523,153 |
| Software and easement | 3,530,098 | 215,645 | - | 174,981 | 3,920,724 |
| Facilities | 51,747,275 | - | (6,832) | - | 51,740,443 |
| Track and signal improvements | 42,350,282 | - | (607,607) | - | 41,742,675 |
| Furniture, equipment and software | 8,808,001 | 30,408 | - | - | 8,838,409 |
| Equity in property of others | 2,893,643 | - | - | - | 2,893,643 |
| Total capital assets being depreciated and amortized | 339,855,212 | 4,010,066 | (8,822,866) | 5,777,026 | 340,819,438 |
| Less accumulated depreciation and amortization for: | | | | | |
| Buses and related equipment | 56,952,213 | 4,559,804 | (5,640,178) | - | 55,871,839 |
| Rail rolling stock | 34,758,505 | 5,312,799 | (2,477,704) | - | 37,593,600 |
| Buildings | 4,964,458 | 268,512 | - | - | 5,232,970 |
| Building improvements | 1,768,920 | 240,888 | (5,351) | - | 2,004,457 |
| Site improvements | 499,118 | 69,577 | - | - | 568,695 |
| Bus shelters | 1,139,602 | 118,009 | (61,030) | - | 1,196,581 |
| Vehicles | 146,063 | 20,681 | - | - | 166,744 |
| Furniture and equipment | 368,251 | 452,737 | (23,762) | - | 797,226 |
| Software and easement | 788,754 | 619,316 | - | - | 1,408,070 |
| Facilities | 17,649,293 | 1,545,648 | - | - | 19,194,941 |
| Track and signal improvements | 11,882,621 | 1,399,075 | - | - | 13,281,696 |
| Furniture, equipment and software | 7,162,986 | 518,696 | - | - | 7,681,682 |
| Equity in property of others | 1,733,384 | 84,949 | - | - | 1,818,333 |
| Total accumulated depreciation and amortization | 139,814,168 | 15,210,691 | (8,208,025) | - | 146,816,834 |
| Total capital assets being depreciated and amortized, net | 200,041,044 | (11,200,625) | (614,841) | 5,777,026 | 194,002,604 |
| Total capital assets, net | \$ 217,201,181 | \$ (618,473) | \$ (614,841) | \$ - | \$ 215,967,867 |

Note: The chart above reflects the completion of the five new railcars project at a value of \$5.57 million. VRE sold seven fully depreciated Gallery-style railcars to Metra in Chicago in fiscal year 2017, with a value of \$4.96 million (\$2.48 million, PRTC reporting entity). The chart also reflects the reduction of \$.6 million in track and signal asset value for the PRTC reporting entity. This reduction is due to an over estimation and accrual of expected remaining project costs at the time the asset went into service and was capitalized in fiscal year 2016. Subsequent payment activity identified this over-accrual, leading to the reduction of the final asset cost. Similarly, a reduction of \$6,832 to facilities assets for the PRTC reporting entity was related to a small refund of project costs after the project was capitalized in fiscal year 2016.

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 \$225,000 to \$285,000 through October 2022, plus interest at 4.50% to 4.83%

\$ 1,520,000

Mandatory debt service requirements consist of the following:

| Year(s) Ending June 30, | Principal | Interest | Total Required |
|-------------------------|---------------------|-------------------|---------------------|
| 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 | 275,000 | 20,378 | 295,378 |
| 2023 | 285,000 | 6,878 | 291,878 |
| | <u>\$ 1,520,000</u> | <u>\$ 229,406</u> | <u>\$ 1,749,406</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 \$16,323,930 (PRTC reporting entity, \$8,161,965) | <u>\$ 12,810,417</u> | <u>\$ 6,405,209</u> |

Future minimum lease payments as of June 30, 2017 are as follows:

| Year(s) Ending June 30, | Total | PRTC Reporting Entity |
|-----------------------------------|----------------------|-----------------------|
| 2018 | \$ 1,931,357 | \$ 965,679 |
| 2019 | 1,931,357 | 965,679 |
| 2020 | 1,931,357 | 965,679 |
| 2021 | 1,931,357 | 965,678 |
| 2022 | 1,931,357 | 965,678 |
| 2023-2025 | 5,794,072 | 2,897,036 |
| Total minimum lease payments | <u>15,450,857</u> | <u>7,725,429</u> |
| Less amount representing interest | <u>2,640,440</u> | <u>1,320,220</u> |
| Present value of lease payments | <u>\$ 12,810,417</u> | <u>\$ 6,405,209</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 \$25,380 (PRTC reporting entity, \$12,690) | \$ 34,287 | \$ 17,143 |

Future minimum lease payments as of June 30, 2017 are as follows:

| Year Ending June 30, | Total | PRTC Reporting Entity |
|-----------------------------------|-----------|--------------------------|
| 2018 | \$ 19,248 | \$ 9,624 |
| 2019 | 15,948 | 7,974 |
| 2020 | 2,658 | 1,329 |
| Total minimum lease payments | 37,854 | 18,927 |
| Less amount representing interest | 3,567 | 1,784 |
| Present value of lease payments | \$ 34,287 | \$ 17,143 |

The following is a summary of long-term liability activity for the year ended June 30, 2017:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---------------------|----------------------|-----------|------------|-------------------|------------------------|
| Revenue bond | \$ 1,735,000 | \$ - | \$ 215,000 | \$ 1,520,000 | \$ 225,000 |
| Unamortized premium | 266,979 | - | 42,716 | 224,263 | - |
| Capital leases | 7,079,477 | - | 657,125 | 6,422,352 | 687,751 |
| | \$ 9,081,456 | \$ - | \$ 914,841 | \$ 8,166,615 | \$ 912,751 |

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, 2017:

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|---|--|--------------------------|----------------------|
| Cash and investments | \$ 9,867,464 | \$ 26,819 | \$ 9,894,283 |
| Due from other governments, net | 1,662,689 | - | 1,662,689 |
| Grants and contributions | - | 389,612 | 389,612 |
| Cash and investments - insurance trust fund | - | 5,208,434 | 5,208,434 |
| | <u>\$ 11,530,153</u> | <u>\$ 5,624,865</u> | <u>\$ 17,155,018</u> |

Unrestricted net position consists of the following as of June 30, 2017:

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total |
|--|--|--------------------------|----------------------|
| Designation of unrestricted net assets: | | | |
| Carry forward to support future years' budgets | \$ 4,000,000 | \$ - | \$ 4,000,000 |
| Local match for federal/state grants | 1,583,216 | - | 1,583,216 |
| Total designations | <u>5,583,216</u> | <u>-</u> | <u>5,583,216</u> |
| Undesignated unrestricted net position | 19,817,412 | 39,513,080 | 59,330,492 |
| Total unrestricted net position | <u>\$ 25,400,628</u> | <u>\$ 39,513,080</u> | <u>\$ 64,913,708</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.

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 2017 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS STATEMENT OF NET POSITION June 30, 2017

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | |
|---|-----------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 49,101,840 |
| Accounts receivable: | |
| Due from PRTC – FTA and other | 16,143,311 |
| Commonwealth of Virginia grants | 7,409,568 |
| Trade receivables, net of allowance for doubtful accounts | 2,017,394 |
| Other receivables | 1,342,975 |
| Inventory | 3,928,722 |
| Prepaid expenses and other | 144,596 |
| Restricted cash, cash equivalents and investments | 11,249,729 |
| Total current assets | 91,338,135 |
| Noncurrent Assets | |
| Capital assets (net of \$159,245,676 accumulated depreciation and amortization) | 346,205,344 |
| Total noncurrent assets | 346,205,344 |
| Total assets | 437,543,479 |
| Deferred Outflows of Resources | |
| Pension plan | 646,262 |
| Total deferred outflows of resources | 646,262 |
| Total assets and deferred outflows of resources | \$ 438,189,741 |
| LIABILITIES AND NET POSITION | |
| Current Liabilities | |
| Accounts payable and accrued liabilities | \$ 8,592,555 |
| Unearned revenue | 1,836,781 |
| Contract retainage | 582,456 |
| Current portion of: | |
| Capital lease obligations | 1,375,502 |
| Note payable | 2,290,688 |
| Total current liabilities | 14,677,982 |
| Noncurrent Liabilities | |
| Pension liability | 311,424 |
| Capital lease obligations | 11,469,202 |
| Note payable | 51,149,471 |
| Compensated absences | 525,674 |
| Total noncurrent liabilities | 63,455,771 |
| Total liabilities | 78,133,753 |
| Net Position | |
| Net investment in capital assets | 279,920,481 |
| Restricted for liability insurance plan | 10,470,506 |
| Restricted grants or contributions | 779,223 |
| Unrestricted assets | 68,885,778 |
| Total net position | 360,055,988 |
| Total liabilities and net position | \$ 438,189,741 |

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, 2017

| | |
|---|------------------------------|
| Operating Revenues | \$ 42,582,290 |
| Operating Expenses | <u>73,979,660</u> |
| Operating loss before depreciation and amortization | (31,397,370) |
| Depreciation and Amortization | <u>(17,737,170)</u> |
| Operating loss | <u>(49,134,540)</u> |
| Nonoperating Revenues (Expenses) | |
| Subsidies: | |
| Commonwealth of Virginia grants | 18,265,581 |
| Federal grants – with PRTC as grantee | 15,937,225 |
| Jurisdictional contributions | 17,250,240 |
| Regional transportation funding (NVTa) | 461,889 |
| Interest income: | |
| Operating funds | 285,495 |
| Insurance trust | 98,560 |
| Other restricted funds | 402 |
| Gain on disposal of assets | 3,500 |
| Interest, amortization and other nonoperating expenses, net | <u>(3,217,756)</u> |
| Total nonoperating revenues, net | <u>49,085,136</u> |
| Capital Grants and Assistance | |
| Commonwealth of Virginia grants | 3,033,657 |
| Federal grants – with PRTC as grantee | 15,204,474 |
| Regional transportation funding (NVTa) | 651,163 |
| Other local contributions | <u>162,839</u> |
| Total capital grants and assistance | <u>19,052,133</u> |
| Change in net position | 19,002,729 |
| Net Position, beginning of year | <u>341,053,259</u> |
| Net Position, ending | <u><u>\$ 360,055,988</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, 2017, amounts expended for joint and jurisdictional transportation projects consisted of:

| | Bus Service and Member Jurisdictions |
|-------------------------------|--|
| VRE support | \$ 5,449,643 |
| Other jurisdictional projects | 5,788,981 |
| | <u>\$ 11,238,624</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 \$149,000 at June 30, 2017, of which \$74,500 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, 2017 was as follows:

| | Total | PRTC Reporting Entity |
|--------------------------------------|----------------------|--------------------------|
| Beginning balance, July 1, 2016 | \$ 10,386,757 | \$ 5,193,378 |
| Contribution to reserves | 3,900,000 | 1,950,000 |
| Insurance premiums paid | (3,909,349) | (1,954,675) |
| Investment income | 98,560 | 49,280 |
| Actuarial and administrative charges | (59,097) | (29,549) |
| Ending balance, June 30, 2017 | <u>\$ 10,416,871</u> | <u>\$ 5,208,434</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, 2017, 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, 2017 were \$19,122.

PRTC also offers a Governmental Money Purchase Plan (401a) to the Executive Director (including the Interim) for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2017 were \$25,462.

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") <ul style="list-style-type: none">•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: <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> • 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 Defined Benefit Component Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. | Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of creditable service. | Earliest Reduced Retirement Eligibility Defined Benefit Component Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Defined Contribution Component Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. | Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%. Eligibility: Same as Plan 1 | Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component Same as Plan 2. Defined Contribution Component Not applicable. Eligibility: Same as Plan 1 and Plan 2. |

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: <ul style="list-style-type: none"> • 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. |
| <u>Disability Coverage</u> 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. | <u>Disability Coverage</u> 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. | <u>Disability Coverage</u> 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: <ul style="list-style-type: none"> • 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, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|--|------------|
| Inactive members or their beneficiaries currently receiving benefits | 19 |
| Inactive members: | |
| Vested | 18 |
| Non-vested | 25 |
| Active elsewhere in VRS | 7 |
| Total inactive members | 50 |
| Active members | 91 |
| Total covered employees | 160 |

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, 2017 was 5.37% for Plan 1 and Plan 2 and 4.37% for the Hybrid Plan of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$419,283 and \$478,465 for the years ended June 30, 2017 and 2016, respectively.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

B. Net Pension (Asset) Liability

PRTC's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions

The total pension liability for PRTC's retirement plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| 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, 2015 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) Liability (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) Liability (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) Liability

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension (Asset) Liability |
|--|----------------------------|--------------------------------|----------------------------------|
| Balance at June 30, 2015 | \$ 13,694,496 | \$ 14,064,326 | \$ (369,830) |
| Changes for the year: | | | |
| Service cost | 778,686 | - | 778,686 |
| Interest | 942,652 | - | 942,652 |
| Difference between expected and actual experience | 284,843 | - | 284,843 |
| Contributions – employer | - | 478,465 | (478,465) |
| Contributions – employee | - | 375,574 | (375,574) |
| Net investment income | - | 259,738 | (259,738) |
| Benefit payments, including refunds of employee contributions | (456,078) | (456,078) | - |
| Administrative expense | - | (8,396) | 8,396 |
| Other changes | - | (107) | 107 |
| Net changes | 1,550,103 | 649,196 | 900,907 |
| Balance at June 30, 2016 | \$ 15,244,599 | \$ 14,713,522 | \$ 531,077 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

C. Changes in the Net Pension (Asset) Liability (Continued)

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate

The following presents the net pension (asset) liability 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 | \$ 2,744,539 | \$ 531,077 | \$ (1,291,234) |

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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 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 Related to Pensions

For the year ended June 30, 2017, the Commission recognized pension expense of \$454,635. The Commission also reported deferred outflows of resources from the following sources:

| | Deferred Outflows of Resources |
|---|--------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ 401,549 |
| Net difference between expected and actual experience | 281,287 |
| Employer contributions subsequent to the measurement date | 419,283 |
| Total | \$ 1,102,119 |

The \$419,283 reported as deferred outflows of resources related to pensions resulting from PRTC's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2018.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

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

| Year Ending June 30, | Amount |
|----------------------|-------------------|
| 2018 | \$ 98,502 |
| 2019 | 98,501 |
| 2020 | 285,362 |
| 2021 | 200,471 |
| | <u>\$ 682,836</u> |

Note 14. Contingencies and Contractual Commitments

Fuel Contractual Commitments

PRTC entered into contracts at various times in July 2017 to purchase fuel at set prices for delivery in August 2017 through June 2018. The total commitment is for 210,000 gallons of fuel at approximately \$339,000. 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, 2017, 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, 2017:

| | |
|-------------------------------|-----------------------------|
| Stations and parking lots | \$ 3,723,340 |
| Rail rolling stock | 19,400,653 |
| Maintenance and layover yards | 1,956,777 |
| Track and signal improvements | 169,411 |
| Other administrative | <u>1,282,759</u> |
| Total | <u><u>\$ 26,532,940</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, 2017, annual track usage fees totaled approximately \$9,545,000, of which \$5,131,400 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately \$531,000, of which \$285,500 is recognized by the PRTC reporting entity.

The agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on July 1, 2015. For the year ended June 30, 2017, costs for track access and equipment storage totaled approximately \$6,502,000, of which \$3,495,475 was recognized by the PRTC reporting entity. Costs for mid-day maintenance, utility, and other services totaled approximately \$4,636,000, of which \$2,492,300 was recognized by the PRTC reporting entity. Cost adjustments will be made in fiscal year 2018 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, 2017, based on an annual budget prepared in advance, was approximately \$21,331,000, of which \$11,467,500 is recognized by the PRTC reporting entity. Costs for fiscal year 2018 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

Note 16. Interfund Transfers

| | Bus Service and Member Jurisdictions | Commuter Rail Service | Total Transferred Out |
|--------------------------------------|--|--------------------------|--------------------------|
| Transfer from fund: | | | |
| Bus Service and Member Jurisdictions | \$ - | \$ 31,141,670 | \$ 31,141,670 |
| Commuter Rail Service | (64,171) | - | (64,171) |
| Total transferred in | \$ (64,171) | \$ 31,141,670 | \$ 31,077,499 |

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, 2017, 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. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Statement No. 83 will be effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 85, *Omnibus 2017*, will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. Statement No. 85 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, will improve accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance. Statement No. 86 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 87, *Leases*, will increase the usefulness of PRTC's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after December 15, 2019.

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

Note 18. Subsequent Events

VRE sold seven fully depreciated Pullman-Standard Gallery-style railcars to Foxville & Northern Railroad Co., LLC in July 2017. The cars were sold for \$500 per unit, and there was no remaining Federal interest at the time the sale was completed.

In July 2017, the VRE Operations Board approved the execution of a 15-year lease with one 5-year option for additional office space in an amount not to exceed \$3,902,008. The office space is owned by the International Association of Refrigerated Warehouses and is located at 1500 King Street in Alexandria, adjacent to the current VRE offices. The agreement was executed in September 2017.

In August 2017, VRE entered into contracts to purchase fuel at set prices for delivery in August 2017 through October 2017. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 126,000 gallons of fuel at a cost of approximately \$220,000.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

| | Fiscal Year June 30, | | | |
|---|----------------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 2017 |
| Contractually required contribution (CRC) | \$ 528,296 | \$ 460,763 | \$ 478,465 | \$ 419,283 |
| Contributions in relation to the CRC | 528,296 | 460,763 | 478,465 | 419,283 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 6,856,560 | \$ 7,617,414 | \$ 7,711,934 | \$ 8,619,597 |
| Contributions as a percentage of covered-employee payroll | 7.70% | 6.05% | 6.20% | 4.86% |

Note to Schedule:

- (1) 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) LIABILITY – VIRGINIA RETIREMENT SYSTEM

| | Fiscal Year June 30, | | |
|--|----------------------|----------------------|----------------------|
| | 2014 | 2015 | 2016 |
| Total Pension Liability | | | |
| Service cost | \$ 722,134 | \$ 743,258 | \$ 778,686 |
| Interest | 763,704 | 850,266 | 942,652 |
| Differences between expected and actual experience | - | 92,275 | 284,843 |
| Benefit payments, including refunds of employee contributions | (222,525) | (275,932) | (456,078) |
| Net change in total pension liability | 1,263,313 | 1,409,867 | 1,550,103 |
| Total pension liability - beginning | 11,021,316 | 12,284,629 | 13,694,496 |
| Total pension liability - ending (a) | <u>\$ 12,284,629</u> | <u>\$ 13,694,496</u> | <u>\$ 15,244,599</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | \$ 528,296 | \$ 460,763 | \$ 478,465 |
| Contributions - employee | 414,844 | 494,240 | 375,574 |
| Net investment income | 1,697,173 | 603,590 | 259,738 |
| Benefit payments, including refunds of employee contributions | (222,525) | (275,932) | (456,078) |
| Administrative expense | (8,482) | (7,442) | (8,396) |
| Other | 89 | (131) | (107) |
| Net change in plan fiduciary net position | 2,409,395 | 1,275,088 | 649,196 |
| Plan fiduciary net position - beginning | 10,379,843 | 12,789,238 | 14,064,326 |
| Plan fiduciary net position - ending (b) | <u>12,789,238</u> | <u>14,064,326</u> | <u>14,713,522</u> |
| PRTC's net pension (asset) liability - ending (a) - (b) | <u>\$ (504,609)</u> | <u>\$ (369,830)</u> | <u>\$ 531,077</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 104.11% | 102.70% | 96.52% |
| Covered-employee payroll | \$ 6,856,560 | \$ 7,617,414 | \$ 7,711,934 |
| PRTC's net pension (asset) liability as a percentage of covered - employee payroll | 7.36% | 4.86% | -6.89% |

Note to Schedule:

- (1) 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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

Note 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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 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:

- 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

Note 3. Contractually Required Contributions

The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported.

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 marked |
| 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% |

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION – BUS SERVICE AND MEMBER JURISDICTIONS June 30, 2017 and 2016

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Current Assets | | |
| Cash and investments in bank | \$ 20,134,110 | \$ 17,729,058 |
| Receivables: | | |
| Due from other governments | 27,458,534 | 40,965,204 |
| Due from Commuter Rail Service Fund | 2,697,523 | 1,863,540 |
| Miscellaneous | 32,377 | 45,982 |
| Prepaid expenses and other assets | 30,202 | 46,813 |
| Restricted assets: | | |
| Cash and investments in pooled funds - member jurisdictions | 9,867,464 | 12,588,714 |
| Total current assets | 60,220,210 | 73,239,311 |
| Noncurrent Assets | | |
| Net pension asset | - | 156,031 |
| Capital assets: | | |
| Transportation equipment: | | |
| Buses and related equipment | 78,422,864 | 80,452,798 |
| Less: accumulated depreciation | (55,871,839) | (56,952,213) |
| Transportation equipment, net | 22,551,025 | 23,500,585 |
| Land, buildings, and equipment: | | |
| Land | 6,639,270 | 6,639,270 |
| Buildings | 8,052,341 | 8,052,341 |
| Building improvements | 4,056,814 | 3,968,436 |
| Construction in progress | 3,373,911 | 3,572,531 |
| Site improvements | 1,430,513 | 1,430,513 |
| Bus shelters | 1,497,616 | 1,508,473 |
| Vehicles | 141,987 | 141,987 |
| Furniture and equipment | 2,523,153 | 2,524,672 |
| Software and easement | 3,920,724 | 3,530,098 |
| Less: accumulated depreciation and amortization | (11,322,155) | (9,629,998) |
| Land, buildings and equipment, net | 20,314,174 | 21,738,323 |
| Total capital assets, net | 42,865,199 | 45,238,908 |
| Total noncurrent assets | 42,865,199 | 45,394,939 |
| Total assets | 103,085,409 | 118,634,250 |
| Deferred Outflows of Resources | | |
| Pension plan | 455,857 | 232,831 |
| Total deferred outflows of resources | 455,857 | 232,831 |
| Total assets and deferred outflows of resources | \$ 103,541,266 | \$ 118,867,081 |

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | 2017 | 2016 |
|--|----|--------------------|----------------|
| Current Liabilities | | | |
| Accounts payable and other liabilities | \$ | 3,345,062 | \$ 3,955,401 |
| Accrued payroll and benefits | | 574,317 | 456,389 |
| Accrued interest | | 17,987 | 20,417 |
| Due to other governments | | 1,870,914 | 3,018,405 |
| Due to Commuter Rail Service Fund | | 16,143,280 | 28,642,151 |
| Unearned revenue | | 966,079 | 905,629 |
| Compensated absences | | 190,313 | 27,242 |
| Bond payable - current portion | | 225,000 | 215,000 |
| Total current liabilities | | 23,332,952 | 37,240,634 |
| Noncurrent Liabilities | | | |
| Compensated absences | | 417,681 | 525,644 |
| Bond payable, net | | 1,519,263 | 1,786,979 |
| Net pension liability | | 219,653 | - |
| Total noncurrent liabilities | | 2,156,597 | 2,312,623 |
| Total liabilities | | 25,489,549 | 39,553,257 |
| Deferred Inflows of Resources | | | |
| Pension plan | | - | 133,011 |
| Total deferred inflows of resources | | - | 133,011 |
| Net Position | | | |
| Net investment in capital assets | | 41,120,936 | 43,236,929 |
| Restricted | | 11,530,153 | 12,918,776 |
| Unrestricted | | 25,400,628 | 23,025,108 |
| Total net position | | 78,051,717 | 79,180,813 |
| Total liabilities, deferred inflows of resources and net position | \$ | 103,541,266 | \$ 118,867,081 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUS SERVICE AND MEMBER JURISDICTIONS

Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Operating Revenues | | |
| Motor fuel tax | \$ 20,516,891 | \$ 18,704,192 |
| Farebox | 11,116,014 | 11,331,751 |
| Advertising | 76,196 | 50,801 |
| Total operating revenues | 31,709,101 | 30,086,744 |
| Operating Expenses | | |
| Direct transportation | 11,238,624 | 24,229,100 |
| Salaries and related benefits | 5,030,897 | 4,654,303 |
| Contractual services | 22,479,512 | 23,103,612 |
| Other services | 1,773,516 | 1,622,126 |
| Materials, supplies and minor equipment | 432,894 | 761,917 |
| Fuel | 2,021,552 | 2,956,617 |
| Total operating expenses | 42,976,995 | 57,327,675 |
| Operating loss before depreciation and amortization | (11,267,894) | (27,240,931) |
| Depreciation and amortization | (6,342,104) | (5,458,107) |
| Operating loss | (17,609,998) | (32,699,038) |
| Nonoperating Revenues (Expenses) | | |
| Commonwealth of Virginia grants | 7,431,369 | 6,572,553 |
| Federal grants | 19,825,301 | 18,130,107 |
| Investment income | 117,015 | 60,781 |
| Pass-through grants - member jurisdictions | (1,022) | (1,022) |
| Interest expense | (31,663) | (40,766) |
| Other revenue | 1,216,218 | 706,798 |
| Total nonoperating revenues, net | 28,557,218 | 25,428,451 |
| Capital Grants and Assistance | | |
| Commonwealth of Virginia grants | 3,108,838 | 5,027,415 |
| Federal grants | 15,803,238 | 23,652,537 |
| Capital contributions | - | 22,000 |
| Total capital grants and assistance | 18,912,076 | 28,701,952 |
| Income before transfers and gain (loss) on disposal of assets | 29,859,296 | 21,431,365 |
| Transfers In | 64,171 | 68,440 |
| Transfers Out | (31,141,670) | (36,042,570) |
| Transfers, net | (31,077,499) | (35,974,130) |
| Gain (Loss) on Disposal of Assets | 89,107 | (14,718) |
| Change in net position | (1,129,096) | (14,557,483) |
| Net Position, beginning | 79,180,813 | 93,738,296 |
| Net Position, ending | \$ 78,051,717 | \$ 79,180,813 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION – COMMUTER RAIL SERVICE

June 30, 2017 and 2016

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Current Assets | | |
| Cash and investments in bank | \$ 26,398,804 | \$ 15,034,604 |
| Receivables: | | |
| Due from Bus Service and Member Jurisdictions Fund | 16,143,280 | 28,642,151 |
| Trade receivables, net of allowance for doubtful accounts | 1,084,619 | 1,169,604 |
| Miscellaneous | 598,398 | 1,120,217 |
| Inventory | 2,112,213 | 2,141,632 |
| Prepaid expenses and other assets | 77,740 | 74,371 |
| Restricted cash, cash equivalents and investments | 5,624,865 | 5,609,606 |
| Total current assets | 52,039,919 | 53,792,185 |
| Noncurrent Assets | | |
| Net pension asset | - | 213,799 |
| Capital assets: | | |
| Transportation equipment: | | |
| Rail rolling stock | 135,474,545 | 132,377,538 |
| Less: accumulated depreciation | (37,593,600) | (34,758,505) |
| Transportation equipment, net | 97,880,945 | 97,619,033 |
| Buildings and equipment: | | |
| Construction in progress | 11,952,082 | 6,948,336 |
| Vehicles | 83,711 | 69,155 |
| Furniture, equipment and software | 8,838,409 | 8,808,001 |
| Equity in property of others | 2,893,643 | 2,893,643 |
| Facilities | 51,740,443 | 51,747,275 |
| Track and signal improvements | 41,742,675 | 42,350,282 |
| Less: accumulated depreciation and amortization | (42,029,240) | (38,473,452) |
| Buildings and equipment, net | 75,221,723 | 74,343,240 |
| Total capital assets, net | 173,102,668 | 171,962,273 |
| Total noncurrent assets | 173,102,668 | 172,176,072 |
| Total assets | 225,142,587 | 225,968,257 |
| Deferred Outflows of Resources | | |
| Pension plan | 646,262 | 319,010 |
| Total deferred outflows of resources | 646,262 | 319,010 |
| Total assets and deferred outflows of resources | \$ 225,788,849 | \$ 226,287,267 |

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | 2017 | 2016 |
|--|----|--------------------|----------------|
| Current Liabilities | | | |
| Accounts payable and other liabilities | \$ | 941,960 | \$ 1,804,125 |
| Accrued expenses | | 1,970,218 | 2,670,476 |
| Due to Bus Service and Member Jurisdictions Fund | | 2,697,523 | 1,863,540 |
| Unearned revenue | | 987,515 | 905,358 |
| Capital lease | | 687,751 | 657,125 |
| Interest payable - capital lease | | 49,000 | 53,966 |
| Retainage payable | | 291,228 | 700,337 |
| Compensated absences | | 16,748 | 13,205 |
| Total current liabilities | | 7,641,943 | 8,668,132 |
| Noncurrent Liabilities | | | |
| Net pension liability | | 311,424 | - |
| Compensated absences | | 282,620 | 266,095 |
| Capital lease | | 5,734,601 | 6,422,352 |
| Total noncurrent liabilities | | 6,328,645 | 6,688,447 |
| Total liabilities | | 13,970,588 | 15,356,579 |
| Deferred Inflows of Resources | | | |
| Pension plan | | - | 182,256 |
| Total deferred inflows of resources | | - | 182,256 |
| Net Position | | | |
| Net investment in capital assets | | 166,680,316 | 164,882,798 |
| Restricted for liability insurance plan | | 5,235,253 | 5,219,995 |
| Restricted grants and contributions | | 389,612 | 389,611 |
| Unrestricted | | 39,513,080 | 40,256,028 |
| Total net position | | 211,818,261 | 210,748,432 |
| Total liabilities, deferred inflows of resources and net position | \$ | 225,788,849 | \$ 226,287,267 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – COMMUTER RAIL SERVICE

Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Operating Revenues | | |
| Passenger revenues | \$ 22,731,512 | \$ 20,222,410 |
| Equipment rental and other | 162,162 | 128,775 |
| Total operating revenues | 22,893,674 | 20,351,185 |
| Operating Expenses | | |
| Contract operations and maintenance | 13,910,697 | 12,919,056 |
| Other operations and maintenance | 7,774,833 | 7,329,273 |
| Property leases and access fees | 8,729,346 | 8,140,982 |
| Insurance | 2,134,811 | 2,170,572 |
| Marketing and sales | 1,361,404 | 1,283,897 |
| General and administrative | 5,798,664 | 5,571,528 |
| Total operating expenses | 39,709,755 | 37,415,308 |
| Operating loss before depreciation and amortization | (16,816,081) | (17,064,123) |
| Depreciation and Amortization | (8,868,587) | (8,476,782) |
| Operating loss | (25,684,668) | (25,540,905) |
| Nonoperating Revenues (Expenses) | | |
| Jurisdictional contributions | 11,743,049 | 11,251,725 |
| Regional transportation funding | 230,944 | 271,336 |
| Investment income | 202,973 | 85,073 |
| Interest, amortization and other nonoperating expenses, net | (313,541) | (343,305) |
| Total nonoperating revenues, net | 11,863,425 | 11,264,829 |
| Capital Grants and Assistance | | |
| Contribution from (to) NVTC | (16,513,758) | 1,642,814 |
| Regional transportation funding | 325,581 | - |
| Other local contributions | - | 843,675 |
| Total capital grants and assistance, net | (16,188,177) | 2,486,489 |
| Loss before transfers, loss on disposal of assets and extraordinary item | (30,009,420) | (11,789,587) |
| Transfers Out | (64,171) | (68,440) |
| Transfers In | 31,141,670 | 36,042,570 |
| Transfers, net | 31,077,499 | 35,974,130 |
| Loss on Disposal of Assets | 1,750 | - |
| Extraordinary Item | - | (941,472) |
| Change in net position | 1,069,829 | 23,243,071 |
| Net Position, beginning | 210,748,432 | 187,505,361 |
| Net Position, ending | \$ 211,818,261 | \$ 210,748,432 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS

Year Ended June 30, 2017

| | 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, 2016 | \$ 1,759,556 | \$ 299,669 | \$ 2,422,190 | \$ 1,376,282 | \$ 1,250,801 | \$ 5,810,278 | \$ 12,918,776 |
| Funds Received: | | | | | | | |
| Motor fuel tax | 1,260,555 | 764,445 | 686,176 | 10,727,996 | 3,363,484 | 3,714,235 | 20,516,891 |
| Transfer from PRTC (carryforward) | 169 | 26,560 | 19,700 | 2,253,740 | 34,293 | - | 2,334,462 |
| Other | - | 21,512 | - | 1,298,017 | - | - | 1,319,529 |
| Interest | 12,915 | 1,224 | 16,427 | 14,561 | 12,241 | 37,051 | 94,419 |
| Total funds received | 1,273,639 | 813,741 | 722,303 | 14,294,314 | 3,410,018 | 3,751,286 | 24,265,301 |
| Funds Disbursed: | | | | | | | |
| Direct transportation expenses: | | | | | | | |
| VRE jurisdictional operating and capital | 483,524 | 424,371 | 511,777 | - | 2,647,222 | 1,382,749 | 5,449,643 |
| Other projects | 1,324,067 | 63,270 | - | - | - | 4,401,644 | 5,788,981 |
| Transfers to PRTC: | | | | | | | |
| Administrative | 33,200 | 21,300 | 13,800 | 247,700 | 74,500 | 92,600 | 483,100 |
| OmniRide, OmniLink, Capital Improvement, Marketing, VanPool | 2,800 | 361,300 | 158,800 | 13,395,400 | 6,200 | 7,700 | 13,932,200 |
| Total funds disbursed | 1,843,591 | 870,241 | 684,377 | 13,643,100 | 2,727,922 | 5,884,693 | 25,653,924 |
| Funds Available - June 30, 2017 | \$ 1,189,604 | \$ 243,169 | \$ 2,460,116 | \$ 2,027,496 | \$ 1,932,897 | \$ 3,676,871 | \$ 11,530,153 |

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, 2017. Total funds available reconcile to amounts reported on the statement of net position as follows:

| | |
|--|----------------------|
| Cash and investments in pooled funds - member jurisdictions | \$ 9,867,464 |
| Due from other governments - Motor fuels tax revenue receipts (see Note 4) | 3,529,863 |
| Due to other governments - member jurisdictions | (1,867,174) |
| | <u>\$ 11,530,153</u> |

Note 2 - Expenses for other jurisdictional projects consist of:

| | | | | | | | |
|--|---------------------|------------------|-------------|-------------|-------------|---------------------|---------------------|
| Road improvements/maintenance | \$ 140,430 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 140,430 |
| Rail and airport maintenance | 29,099 | - | - | - | - | - | 29,099 |
| Parking garage debt service, parking leases | 230,000 | 63,270 | - | - | - | - | 293,270 |
| FRED transit costs | 924,538 | - | - | - | - | 399,369 | 1,323,907 |
| Transportation salaries/benefits; debt service | - | - | - | - | - | 4,002,275 | 4,002,275 |
| | <u>\$ 1,324,067</u> | <u>\$ 63,270</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,401,644</u> | <u>\$ 5,788,981</u> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2017

| State Granting Agency | State Grant Number | Expenses |
|---|--|-----------------------------|
| <u>Direct Payments:</u> | | |
| Virginia Department of Rail and Public Transportation: | | |
| Formula Assistance | 72017-26 | \$ 5,828,892 |
| Ridesharing Assistance | 72516-08; 71017-11 | 195,894 |
| Transportation Intern | 71216-04; 71217-03 | 29,810 |
| I-95 Transit and TDM Bus Services | 71317-14; 71317-15 | 718,151 |
| Vanpool Program | 72513-02 | 42,350 |
| Financial Plan and System Review Tech Assistance | 71315-05; 71315-06; 71317-01; 71317-17 | 69,498 |
| Strategic Plan | 71316-16; 71317-12 | 202,179 |
| Preventive Maintenance | 73017-99 | 150,000 |
| Safe Track Supplemental Transit Service | 71317-20 | 5,747 |
| Capital - FY 12 | 73012-93; 73012-95 | 17,941 |
| Capital - FY 14 | 73014-88 | 61,900 |
| Capital - FY 15 | 73115-02; 73115-04; 73115-12; 73115-13 | 15,766 |
| Capital - FY 15 | 73115-59 | 2,266,202 |
| Capital - FY 16 | 73016-94 | 322,017 |
| Capital - FY 16 | 73016-95 | 5,282 |
| Capital - FY 16 | 73016-97 | 29,922 |
| Capital - FY 16 | 73116-03 | 105 |
| Capital - FY 16 | 73116-04 | 109,942 |
| Capital - FY 17 | 73017-86 | 66,945 |
| Capital - FY 17 | 73017-88 | 190,906 |
| Capital - FY 17 | 73017-89 | 8,116 |
| Capital - FY 17 | 73017-90 | 1,022 |
| Capital - FY 17 | 73017-91 | 21,512 |
| Capital - FY 17 | 73017-93 | 7,682 |
| Capital - FY 17 | 73017-94 | 4,240 |
| Capital - FY 17 | 73017-95 | 1,582 |
| Capital - FY 17 | 73017-96 | 478 |
| | | <u>10,374,081</u> |
| Northern Virginia Transportation Commission: | | |
| Gainesville to Pentagon Bus Service | | <u>155,375</u> |
| Virginia Department of Transportation: | | |
| Congestion Mitigation & Air Quality (Employer Outreach) | | <u>10,751</u> |
| Total State Awards Expended | | <u><u>\$ 10,540,207</u></u> |

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

| 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-05-0048 | 20.500 | | \$ - | \$ 450,182 |
| VA-05-0038 | 20.500 | | - | 310,953 |
| VA-05-0042 | 20.500 | | - | 884,196 |
| VA-05-0048 | 20.500 | | - | 224,657 |
| TBD | 20.500 | | - | 78,327 |
| Federal Transit - Capital Investment Grants | | | | 1,948,315 |
| VA-95-X046 | 20.507 | | - | 120,594 |
| VA-95-X126 | 20.507 | | - | 169,400 |
| VA-95-X149 | 20.507 | | - | 159,580 |
| VA-90-X435 | 20.507 | | - | 4,411 |
| VA-2017-007 | 20.507 | | - | 750,000 |
| VA-2017-023 (Pending) | 20.507 | | - | 2,280,200 |
| VA-90-X269 | 20.507 | | - | 386,121 |
| VA-90-X307 | 20.507 | | - | 201,332 |
| VA-90-X352 | 20.507 | | - | 1,469 |
| VA-90-X368 | 20.507 | | - | 113,970 |
| VA-90-X401 | 20.507 | | - | 464,728 |
| VA-90-X435 | 20.507 | | - | 5,044,086 |
| VA-95-X046 | 20.507 | | - | (211,316) |
| VA-95-X137 | 20.507 | | - | 3,712,231 |
| VA-95-X149 | 20.507 | | - | 5,103,054 |
| VA-2017-007 | 20.507 | | - | 4,466,354 |
| Federal Transit - Formula Grants | | | | 22,766,214 |
| VA-2016-014 | 20.525 | | - | 10,240,106 |
| Federal Transit - State of Good Repair Grants Program | | | | 10,240,106 |
| VA-2018-XXX (Pending) | 20.526 | | - | 651,340 |
| Federal Transit - Bus and Bus Facilities Formula and Discretionary Programs (Bus Program) | | | | 651,340 |
| Total Federal Transit Cluster | | | | 35,605,975 |
| <u>Pass-through Payments:</u> | | | | |
| Metropolitan Washington Council of Governments: | | | | |
| Surface Transportation Discretionary Grants for Capital Investment - TIGER - ARRA | 20.932 | DC-78-0001 | - | 25,000 |
| Virginia Department of Transportation: | | | | |
| Highway Planning and Construction Cluster: | | | | |
| Highway Planning and Construction (Federal Highway) | 20.205 | 5A01(652) | - | 43,004 |
| Highway Planning and Construction (Federal Highway) | 20.205 | 5A01(236) | - | 121,403 |
| Total Highway Planning and Construction Cluster | | | | 164,407 |
| Total Federal Awards Expended | | | | \$ 35,795,382 |

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, 2017. 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.

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

For fiscal year 2017, PRTC recognized amounts in the Schedule associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current fiscal year, \$67,811 of prior year expenditures associated with the Federal Transit Cluster (Cluster) were included in the Schedule. Prior year expenditures associated with the Cluster were reflected in the current year due to timing and submission of invoice from vendor related to ongoing construction project. The Commission did not receive invoice from vendor until December 2016 for cost associated with fiscal year 2015 expenses.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 3. Indirect Cost Rate

PRTC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Disposition of Equipment with Federal Interest

Federal expenditures are \$166,843 more than federal revenues due to offset of federal share of proceeds from sale of buses.



**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, 2017, 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 20, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
November 20, 2017



**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, 2017. 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, 2017.

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 20, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS**Year Ended June 30, 2017**

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 |
|-------------------|-----------------|

Identification of major programs:

CFDA

| Number | Name of Federal Program or Cluster |
|--------|------------------------------------|
| <hr/> | |

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

20.526 Federal Transit – Bus and Bus Facilities Formula and Discretionary Programs
(Bus Program)Dollar threshold used to distinguish between type A and type B programs \$ 1,073,861Auditee qualified as low-risk auditee? Yes √ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2017

Identifying Number: 2016-001

FINANCIAL STATEMENT FINDING

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.

Corrective Action Taken:

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.

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 provided a response at the end of fiscal year 2016, indicating which recommendations management concurred with and that would be implemented. Changes to MUNIS access rights were made within the first three months of fiscal year 2017.