

**POTOMAC RIVER FISHERIES COMMISSION
COLONIAL BEACH, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Potomac River Fisheries Commission for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

- T A B L E O F C O N T E N T S -

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AGENCY OFFICIALS

July 19, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

In conformity with the provisions of the "Potomac River Compact of 1958," contained in Article VI, Section 3 (b), of Chapter 28 of the Acts of the 1959 Extra Session of the General Assembly of the Commonwealth of Virginia, we, acting jointly with the Legislative Auditor of Maryland, have audited the accounts and records of the **Potomac River Fisheries Commission** for the year ended June 30, 2001, and submit herewith our complete reports on financial statements, internal controls, and compliance.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We have audited the balance sheet of the Potomac River Fisheries Commission as of June 30, 2001, and the related statements of revenues, expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Potomac River Fisheries Commission as of June 30, 2001, and the changes in fund balances for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Potomac River Fisheries Commission as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governors and legislative bodies of Virginia and Maryland, the Board of Commissioners, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on September 24, 2001.

AUDITOR OF PUBLIC ACCOUNTS

KKH:whb
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FINANCIAL STATEMENTS

POTOMAC RIVER FISHERIES COMMISSION
BALANCE SHEET - ALL FUNDS AND ACCOUNT GROUPS
As of June 30, 2001

	Governmental		
	General Fund	Special Revenue Fund	Capital Projects Fund
ASSETS AND OTHER DEBITS			
Assets:			
Cash (Note 3)	\$ 122,616	\$ -	\$ -
Accounts receivable	-	1,350	-
Due from other funds	1,350	-	243,688
Investments (Note 4)	72,633	-	-
Fixed assets (Note 5)	-	-	-
Total assets	196,599	1,350	243,688
Other debits:			
Amount to be provided for compensated absences	-	-	-
Total assets and other debits	\$ 196,599	\$ 1,350	\$ 243,688
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
Due to other funds	\$ -	\$ 1,350	\$ -
Accrued expenses	7,064	-	-
License deposits	6,583	-	-
Compensated absences	-	-	-
Total liabilities	13,647	1,350	-
Equity and other credits:			
Investment in general fixed assets	-	-	-
Fund balance:			
Reserve for capital improvements	-	-	243,688
Unreserved	182,952	-	-
Total equity and other credits	182,952	-	243,688
Total liabilities, equity and other credits	\$ 196,599	\$ 1,350	\$ 243,688

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

Account Groups		Total
General	General Long-	(Memorandum
Fixed Assets	Term Debt	Only)
\$ -	\$ -	\$ 122,616
-	-	1,350
-	-	245,038
-	-	72,633
314,596	-	314,596
314,596	-	756,233
-	39,384	39,384
\$ 314,596	\$ 39,384	\$ 795,617

\$ -	\$ -	\$ 1,350
-	-	7,064
-	-	6,583
-	39,384	39,384
-	39,384	54,381
314,596	-	314,596
-	-	243,688
-	-	182,952
314,596	-	741,236
\$ 314,596	\$ 39,384	\$ 795,617

POTOMAC RIVER FISHERIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2001

	General Fund	Special Revenue Fund	Capital Projects Fund
Revenues:			
Sale of licenses:			
Fish	\$ 69,665	\$ -	\$ -
Crab	62,050	-	-
Oyster	7,760	-	-
Clam	200	-	-
Sport fishing	71,778	-	-
Total sale of licenses	211,453	-	-
Appropriations by states:			
Virginia	175,000	-	-
Maryland	150,000	-	-
Oyster bushel inspection tax	4,234	-	-
Interest income	20,235	-	-
License drawing income	15,525	-	-
Miscellaneous	1,978	-	-
Federal grant	-	102,542	-
Total revenues	578,425	102,542	-
Expenditures:			
Operating expenditures:			
Personal services	228,761	-	-
Contractual services	87,197	98,062	15,377
Materials and supplies	40,746	-	-
Current charges and obligations	3,947	-	-
Indirect cost	-	4,480	-
Total operating expenditures	360,651	102,542	15,377
Development and repletion	143,245	-	-
Capital outlay	3,892	-	-
Total expenditures	507,788	102,542	15,377
Excess (deficiency) of revenues over (under) expenditures	70,637	-	(15,377)
Transfers in/(out)	(180,000)	-	180,000
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out	(109,363)	-	164,623
Fund balance at July 1, 2000	292,315	-	79,065
Fund balance at June 30, 2001	\$ 182,952	\$ -	\$ 243,688

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

POTOMAC RIVER FISHERIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - CASH BASIS - GOVERNMENT FUNDS
For the Year Ended June 30, 2001

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Sale of licenses:			
Fish	\$ 60,000	\$ 69,665	\$ 9,665
Crab	60,000	62,050	2,050
Oyster	20,000	7,760	(12,240)
Clam	500	200	(300)
Sport fishing	60,750	69,723	8,973
Total sale of licenses	201,250	209,398	8,148
Appropriations by states:			
Virginia	175,000	175,000	-
Maryland	175,000	150,000	(25,000)
Oyster bushel inspection tax	5,000	4,234	(766)
Interest income	20,000	20,235	235
License drawing income	-	15,525	15,525
Miscellaneous	8,000	1,978	(6,022)
Federal grant	-	-	-
Total revenues	584,250	576,370	(7,880)
Expenditures:			
Operating expenditures:			
Personal services	268,735	229,173	39,562
Contractual services	76,350	87,197	(10,847)
Materials and supplies	49,500	40,746	8,754
Current charges and obligations	4,000	3,947	53
Indirect cost	-	-	-
Total operating expenditures	398,585	361,063	37,522
Development and repletion	251,145	143,245	107,900
Capital outlay	16,000	3,892	12,108
Total expenditures	665,730	508,200	157,530
Excess (deficiency) of revenues over (under) expenditures	(81,480)	68,170	149,650
Transfers (out)	(126,455)	(180,000)	(53,545)
Deficiency of revenues and transfers in under expenditures and transfers out	(207,935)	(111,830)	96,105
Fund balance at July 1, 2000	207,935	307,079	99,144
Fund balance at June 30, 2001	\$ -	\$ 195,249	\$ 195,249

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

Special Revenue Fund			Capital Projects Fund		
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
96,630	102,542	5,912	-	-	-
96,630	102,542	5,912	-	-	-
-	-	-	-	-	-
92,150	98,062	(5,912)	25,520	15,377	10,143
-	-	-	-	-	-
-	-	-	-	-	-
4,480	4,480	-	-	-	-
96,630	102,542	(5,912)	25,520	15,377	10,143
-	-	-	-	-	-
-	-	-	180,000	-	(180,000)
96,630	102,542	(5,912)	205,520	15,377	(169,857)
-	-	-	(205,520)	(15,377)	169,857
-	-	-	126,455	180,000	(53,545)
-	-	-	(79,065)	164,623	116,312
-	-	-	79,065	79,065	-
\$ -	\$ -	\$ -	\$ -	\$ 243,688	\$ 116,312

NOTES TO FINANCIAL STATEMENTS

POTOMAC RIVER FISHERIES COMMISSION

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Potomac River Fisheries Commission is a bi-state commission established to conserve and improve the valuable fishery resources of the tidewater portion of the Potomac River. The Commission was established by the Maryland-Virginia Potomac River Compact of 1958.

B. Fund Structure

The activities of the Commission are presented in three classifications of funds and two account groups. The General Fund accounts for the ordinary operations of the Commission, which are financed primarily by the sale of licenses, collection of oyster taxes, and by appropriations from the General Funds of the Commonwealth of Virginia and the State of Maryland. The Special Revenue Fund accounts for transactions related to funds received under a federal grant program. The Capital Projects Fund accounts for funds reserved by the Commission to construct a new building.

Account groups are used to establish accounting control over general fixed assets and long-term liabilities. Fixed assets do not provide current financial resources available for appropriation or expenditure. Long-term liabilities do not require an appropriation or expenditure during the current accounting period. Accordingly, fixed assets and long-term liabilities are accounted for in self-balancing account groups rather than governmental funds, which only account for sources and uses of current financial resources.

C. Basis of Accounting

The governmental funds are reported using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred through the receipt of goods or services, although payment may occur at a later date. The cash basis of accounting is used during the year and reports are prepared on the modified accrual basis at the end of the fiscal year.

D. General Fixed Assets

General fixed assets are valued at historical cost or estimated historical cost if actual cost is not available. The cost for the acquisition of general fixed assets is recorded as an

expenditure in the General and Capital Projects Funds. Accordingly, no depreciation is provided on general fixed assets.

E. Compensated Absences

Compensated absences reflected in the General Long-Term Debt Account Group represent the amounts of vacation and sick leave earned by employees of the Commission, but not taken at June 30, 2001. The amount reflects all earned vacation and sick leave and related FICA taxes expected to be paid under the Commission's leave pay-out policy upon employment termination.

F. Budgets and Budgetary Accounting

The Commission's budget is prepared principally on the cash basis of accounting. Since the budgetary (cash) basis differs from generally accepted accounting principles (GAAP), a reconciliation of actual data reported on the budgetary (cash) basis to actual data reported on the GAAP (modified accrual) basis is presented in Note 2.

G. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

2. RECONCILIATION OF BUDGETARY (CASH) AND GAAP BASES OF ACCOUNTING

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - Governmental Funds presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled with the actual data on the modified accrual basis as follows:

	<u>General Fund</u>	Capital Projects Fund
Fund balances on budgetary (cash) basis – June 30, 2001	\$ 195,249	\$ 243,688
Adjustments:		
Accrued revenue on GAAP basis	1,350	
Accrued expenditures on GAAP basis	<u>(13,647)</u>	<u>-</u>
Fund balances on GAAP basis – June 30, 2001	<u>\$ 182,952</u>	<u>\$243,688</u>

3. CASH

Cash balances are maintained by the Commission in demand deposit and savings accounts, which are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

4. INVESTMENTS

Investments are stated at cost, which approximates market value. The Commission's investments consist of \$160,526 and \$155,795 in the local government pools of the Commonwealth of Virginia and the State of Maryland, respectively. The Commission's equity in these pools does not consist of specifically identifiable securities and, accordingly, has not been categorized as to level of risk.

5. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 189,170	\$ -	\$ -	\$ 189,170
Buildings	45,530	-	-	45,530
Equipment	36,865	2,387	189	39,063
Building/Improvements	13,081	-	-	13,081
Furniture/Fixtures	7,050	1,505	-	8,555
Motor Vehicles	<u>19,197</u>	<u>-</u>	<u>-</u>	<u>19,197</u>
Total	<u>\$ 310,892</u>	<u>\$ 3,892</u>	<u>\$ 189</u>	<u>\$ 314,595</u>

6. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Potomac River Fisheries Commission, under Article 1, Section 7 of the Potomac River Compact, may extend to any employee membership in the Virginia Retirement System (VRS) or the Maryland Employee's Retirement System, whichever is applicable, subject to the laws relating to each retirement system. Substantially all employees of the Commission are covered under the VRS plan. VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agent for the Commonwealth of Virginia and its political subdivisions.

The Commission's payroll cost for employees covered by the VRS Plan was \$167,597 for the year ended June 30, 2001. The Commission's total payroll cost was \$228,761. The Commission's total VRS contribution was \$17,140, which included the five percent employee contribution assumed by the employer.

Information regarding types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting and authority under which benefit provision, as well as

employer and employee obligations to contribute can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2001. The same report contains historical trend information, which shows VRS' progress in accumulating sufficient assets to pay benefits when due.

7. SURETY BOND

The employees of the Commission were covered under a Faithful Performance Blanket Position Bond with coverage in the amount of \$25,000 for each employee with The Hartford Insurance Group.

8. DEFERRED COMPENSATION PLAN

In January 1996, the Commission adopted a deferred compensation plan through the National Association of Counties (NACo) and administered by Public Employees Benefit Services Corporation (PEBSCO). The plan was created in accordance with Internal Revenue Code Section 457. NACo assumes all regulatory, operational, administrative, and fiduciary responsibilities on behalf of the Commission. The Commission is responsible for the accounting, reconciliations, and record keeping associated with Commission employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to PEBSCO for investment. The plan, available to all Commission employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Pursuant to GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, management has determined that the Commission has no fiduciary relationship with plan participants. Accordingly, plan assets of \$68,046 are not included in the financial statements.

9. RESTATEMENT OF BEGINNING FUND BALANCES

The restatement in beginning fund balances were required to properly reflect transactions specifically for the use of capital improvements that were reported in the General Fund in prior years.

	<u>General Fund</u>	<u>Capital Projects Fund</u>
Balance as of June 30, 2000	\$ 371,417	\$ -
Correction of Prior Year Errors	<u>(79,102)</u>	<u>79,065</u>
Balance, June 30, 2000, as restated	<u>\$ 292,315</u>	<u>\$ 79,065</u>

POTOMAC RIVER FISHERIES COMMISSION
Colonial Beach, Virginia

COMMISSIONERS

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