

**POTOMAC AND RAPPAHANNOCK  
TRANSPORTATION COMMISSION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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### *FINANCIAL SECTION*

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***FINANCIAL SECTION***



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Potomac and Rappahannock Transportation Commission (the "Commission") as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. 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 *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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 Commission, as of June 30, 2011, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012 on our consideration of the Commission's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (pages 3 to 9) and the required supplementary information (page 36) are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PBGH, LLP

Harrisonburg, Virginia  
January 26, 2012

## 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, 2011. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of PRTC. 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, 2011, PRTC's assets exceeded liabilities by \$251,314,751. Of this total, \$76,964,236 is for bus service and member jurisdictions and \$174,350,515 is for commuter rail service.

The net assets of PRTC increased by \$29,217,991 for fiscal year 2011. Of this total, \$4,953,876 was from bus service and member jurisdictions and \$24,264,115 was from commuter rail service.

As of June 30, 2011, PRTC's unrestricted net assets are \$34,983,739. Of this total, \$14,787,331 is for bus service and member jurisdictions and \$20,196,408 is for commuter rail service.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to PRTC's basic financial statements. The basic financial statements are comprised of: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; 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 Assets* presents information on all of PRTC's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 Assets* presents information on revenues, expenses, and changes in PRTC's net assets. All changes in net assets are reported as soon as 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 assets 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 sales tax levied by the Commonwealth of Virginia through its Department of Taxation. Effective January 1, 2010, the motor vehicle fuel sales tax is levied on distributors of gasoline and diesel fuel for deliveries within PRTC's jurisdictions at the rate of 2.1%. Prior to this, the tax was levied on the retailers at the rate of 2%. The Department of Taxation 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 –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. For financial statement reporting purposes, assets, liabilities, and operations are assigned and allocated to NVTC and PRTC based on asset ownership, named entity on debt instruments, and sources of funding.

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

## FINANCIAL ANALYSIS OF THE PRTC REPORTING ENTITY AS A WHOLE

### Statement of Net Assets

The following table presents a summary of the Statement of Net Assets for the PRTC reporting entity as of June 30, 2011 and 2010:

#### Summary of Net Assets As of June 30,

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 51,913,368	\$ 44,296,293	\$ 30,574,127	\$ 29,152,170	\$ 82,487,495	\$ 73,448,463
Capital assets, net	37,265,968	37,410,814	161,102,623	140,462,407	198,368,591	177,873,221
Total assets	89,179,336	81,707,107	191,676,750	169,614,577	280,856,086	251,321,684
Liabilities:						
Current liabilities	11,705,116	9,259,675	7,761,959	9,470,098	19,467,075	18,729,773
Noncurrent liabilities	509,984	437,072	9,564,276	10,058,079	10,074,260	10,495,151
Total liabilities	12,215,100	9,696,747	17,326,235	19,528,177	29,541,335	29,224,924
Net assets:						
Invested in capital assets, net	34,687,199	34,884,180	148,827,498	128,281,529	183,514,697	163,165,709
Restricted	27,489,706	22,599,594	5,326,609	4,773,207	32,816,315	27,372,801
Unrestricted	14,787,331	14,526,586	20,196,408	17,031,664	34,983,739	31,558,250
Total net assets	\$ 76,964,236	\$ 72,010,360	\$ 174,350,515	\$ 150,086,400	\$ 251,314,751	\$ 222,096,760

As noted earlier, net assets may serve as a useful indicator of a government's financial position. As shown above, total assets exceeded liabilities by \$251,314,751, an increase of \$29,217,991 over the previous fiscal year. The largest portion of net assets, \$183,514,697 or 73.0%, represents the investment in net capital assets (e.g., buses, rail rolling stock, building, building improvements), less any related debt that is still outstanding. These assets are used to provide bus and rail service and consequently, are not available for future spending.

A portion of the net assets, \$32,816,315 or 13.1%, represents resources that are restricted for member jurisdictions, commuter rail liability insurance plan, debt service and capital lease, and 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 increased \$9.0 million or 12.3% from the prior year, primarily due to increased cash and investments in the member jurisdictions fuel tax accounts and increased grant receivables.

Capital assets, net of accumulated depreciation and amortization, increased \$20.5 million or 11.5%, primarily as the result of bus additions and overhauls and rail rolling stock and facilities additions.



## Statement of Revenues, Expenses and Changes in Net Assets

The following table shows the revenues and expenses and the change in net assets of the PRTC reporting entity for the fiscal years ended June 30, 2011 and 2010:

### **Summary of Revenues, Expenses and Changes in Net Assets Fiscal Years Ended June 30,**

	<b>Bus Service and Member Jurisdictions</b>		<b>Commuter Rail Service</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>						
Operating revenues	\$ 38,319,246	\$ 30,418,483	\$ 19,524,889	\$ 17,587,346	\$ 57,844,135	\$ 48,005,829
Nonoperating revenues	25,865,676	27,528,411	10,850,006	11,120,956	36,715,682	38,649,367
Capital grants & assistance, net	45,334,933	17,662,565	(21,367,116)	(298,834)	23,967,817	17,363,731
Transfers, net	(56,464,790)	(29,886,781)	56,464,790	29,886,781	-	-
<b>Total revenues</b>	<b>53,055,065</b>	<b>45,722,678</b>	<b>65,472,569</b>	<b>58,296,249</b>	<b>118,527,634</b>	<b>104,018,927</b>
<b>Expenses:</b>						
Operating expenses	42,140,388	39,266,677	34,491,092	30,484,833	76,631,480	69,751,510
Depreciation and amortization	5,843,770	5,434,154	6,109,101	5,668,703	11,952,871	11,102,857
Nonoperating expenses	117,031	178,779	608,261	691,275	725,292	870,054
<b>Total expenses</b>	<b>48,101,189</b>	<b>44,879,610</b>	<b>41,208,454</b>	<b>36,844,811</b>	<b>89,309,643</b>	<b>81,724,421</b>
Change in net assets	4,953,876	843,068	24,264,115	21,451,438	29,217,991	22,294,506
Net Assets, beginning	72,010,360	71,167,292	150,086,400	128,634,962	222,096,760	199,802,254
<b>Net Assets, ending</b>	<b>\$ 76,964,236</b>	<b>\$ 72,010,360</b>	<b>\$ 174,350,515</b>	<b>\$ 150,086,400</b>	<b>\$ 251,314,751</b>	<b>\$ 222,096,760</b>

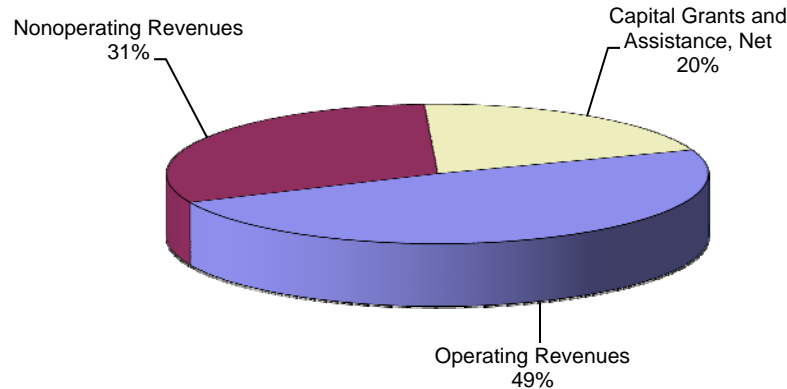
For the fiscal year ended June 30, 2011, revenues totaled \$118.5 million, compared to \$104.0 million in the preceding year, an increase of \$14.5 million or 13.9%. Expenses increased by \$7.6 million or 9.3%. A discussion of the key components of these changes follows.

Operating revenues increased \$9.8 million or 20.5% from the prior year. Farebox revenue for bus service increased by \$1.6 million or 16.8% from the preceding year due to a fare increase and increased ridership. PRTC's portion of the passenger revenues for the commuter rail service increased \$2.0 million or 11.2% as a result of increased ridership. Motor fuel tax revenue increased by \$6.9 million or 33.9%, a reflection of higher fuel prices and a full fiscal year of revenue for a new member jurisdiction (Spotsylvania County, which joined effective February 15, 2010).

Federal grant revenue increased by \$25.3 million or 65.6%, primarily the result of additional funds received for various VRE projects, including the purchase of locomotives. Since PRTC is the grantee for federal funds, \$21.8 million was contributed to NVTC in the allocation process for fiscal year 2011 financial reporting purposes.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2011.

### FY11 Revenues

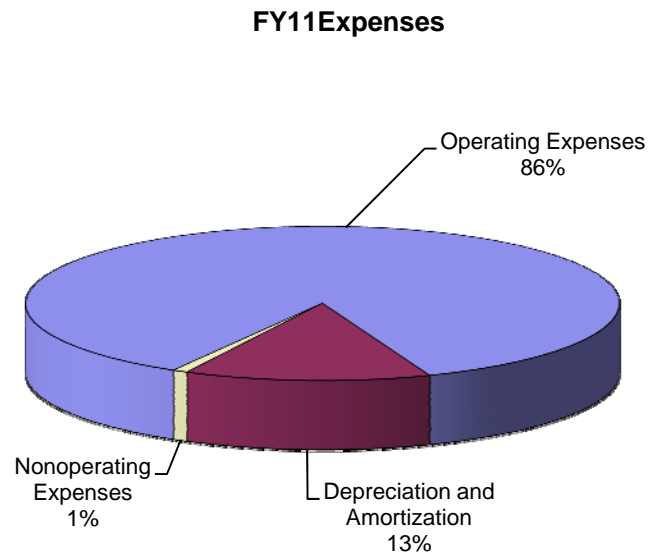


Operating expenses increased by \$6.9 million or 9.9%.

For the bus service and member jurisdictions fund, the increase in operating expenses was \$2.9 million or 7.3%. Direct transportation expenses, which represent the use of jurisdictional motor fuel tax funds for the VRE subsidy as well as other jurisdictional transportation projects independent of PRTC increased by \$.95 million. Contractual services increased by \$1.1 million primarily as a result of PRTC's bus operating/maintenance service contract with First Transit. The First Transit contract cost increased due to inflation and a 4.9% increase in revenue hours. Materials, supplies and minor equipment increased by \$0.8 million primarily because of the increase in diesel fuel prices. The average price per gallon of diesel fuel for PRTC increased from \$1.99 in fiscal year 2010 to \$2.47 in fiscal year 2011.

For the commuter rail service fund, the increase in operating expenses was \$4.0 million or 13.1%. Property leases and access fees increased as the result of regular contractual increases and a new contract with Amtrak for access to Union Station. Contracted operation and maintenance costs increased because of the inclusion in the new contract of certain liability insurance costs and warehouse and facility services and additional costs for maintenance of the older locomotives. Diesel fuel and utility costs were higher due to the increased price of fuel and the use of stand-by power for idling locomotives.

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2011.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The details of capital assets as of June 30, 2011 and 2010 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2011	2010	2011	2010	2011	2010
Buses and related equipment	\$ 57,349,208	\$ 53,112,913	\$ -	\$ -	\$ 57,349,208	\$ 53,112,913
Rail rolling stock	-	-	109,195,304	87,926,088	109,195,304	87,926,088
Furniture and equipment	435,410	900,814	-	-	435,410	900,814
Bus shelters	992,904	797,275	-	-	992,904	797,275
Building improvements	3,042,928	2,920,477	-	-	3,042,928	2,920,477
Building	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Site improvements	1,435,093	1,435,093	-	-	1,435,093	1,435,093
Software and easement	600,911	23,000	-	-	600,911	23,000
Construction in progress	2,767,565	1,815,795	15,841,673	21,408,789	18,609,238	23,224,584
Vehicles	109,512	109,512	49,916	37,081	159,428	146,593
Furniture, equipment, and software	-	-	6,076,777	6,250,492	6,076,777	6,250,492
Equity in local properties	-	-	2,622,399	2,622,399	2,622,399	2,622,399
Facilities	-	-	46,167,776	39,049,577	46,167,776	39,049,577
Track and signal improvements	-	-	26,342,183	26,075,500	26,342,183	26,075,500
	74,785,872	69,167,220	206,296,028	183,369,926	281,081,900	252,537,146
Less accumulated depreciation and amortization	37,519,904	31,756,406	45,193,405	42,907,521	82,713,309	74,663,927
<b>Total capital assets, net</b>	<b>\$ 37,265,968</b>	<b>\$ 37,410,814</b>	<b>\$ 161,102,623</b>	<b>\$ 140,462,405</b>	<b>\$ 198,368,591</b>	<b>\$ 177,873,219</b>

PRTC's investment in capital assets as of June 30, 2011, amounts to \$198.4 million (net of accumulated depreciation and amortization), which represents an increase of \$20.5 million or 11.5%.

For bus service and member jurisdictions, five OmniRide buses were delivered and eleven OmniRide buses were overhauled for a total cost of \$4,148,500. Video surveillance cameras were installed on fifteen OmniRide buses. Conceptual engineering and environmental assessment work began on the western maintenance facility, which is needed because the existing bus facility in Woodbridge is at over capacity for storing buses.

For commuter rail service, completed projects totaling approximately \$32.5 million were closed from construction in progress to their respective capital accounts and an additional \$0.1 million was charged directly to the capital accounts.

The major completed projects were: manufacture of 13 new locomotives at a total cost of \$50.8 million (PRTC's portion is \$25.4 million); construction of a second platform and pedestrian overpass at the Woodbridge station; Fredericksburg station viaduct and platform rehabilitation; and the construction of a maintenance facility at the Broad Run yard. Seven older locomotives were sold during the year for a combined net loss recognized by PRTC of approximately \$135,000. The major additions to construction in progress during the fiscal year were for the acquisition of new locomotives, and improvements to the stations and yards.

#### Debt Administration

At June 30, 2011, the outstanding balance on two PRTC interim notes was \$2,016,138 for the tax-exempt note and \$556,620 for the taxable note. The notes were issued to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard.

PRTC's portion of debt for the commuter rail service is \$9.9 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

#### **REQUEST FOR INFORMATION**

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

***FINANCIAL STATEMENTS***

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**STATEMENT OF NET ASSETS**

**June 30, 2011**

<b>ASSETS</b>	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
<b>Current Assets</b>			
Cash and investments in bank	\$ 14,200,646	\$ 5,948,141	\$ 20,148,787
Cash and investments in pooled funds - member jurisdictions	23,527,616	-	23,527,616
Receivables:			
Due from other governments	26,943,550	-	26,943,550
Trade receivables, net of allowance for doubtful accounts	-	2,211,901	2,211,901
Miscellaneous	110,085	117,827	227,912
Internal balances	(13,819,692)	13,819,692	-
Inventory	-	2,826,954	2,826,954
Prepaid expenses and other assets	30,272	279,159	309,431
Restricted assets:			
Tax free money market	920,891	-	920,891
Cash, cash equivalents and investments	-	5,274,504	5,274,504
<b>Total current assets</b>	<b>51,913,368</b>	<b>30,478,178</b>	<b>82,391,546</b>
<b>Noncurrent Assets</b>			
Other assets:			
Deferred bond and lease costs, net	-	95,949	95,949
<b>Capital assets:</b>			
Transportation equipment:			
Buses and related equipment	57,349,208	-	57,349,208
Rail rolling stock	-	109,195,304	109,195,304
Less: accumulated depreciation	(31,815,258)	(21,377,890)	(53,193,148)
<b>Transportation equipment, net</b>	<b>25,533,950</b>	<b>87,817,414</b>	<b>113,351,364</b>
Buildings and equipment:			
Furniture and equipment	435,410	-	435,410
Bus shelters	992,904	-	992,904
Building improvements	3,042,928	-	3,042,928
Buildings	8,052,341	-	8,052,341
Site improvements	1,435,093	-	1,435,093
Software and easement	600,911	-	600,911
Construction in progress	2,767,565	15,841,673	18,609,238
Vehicles	109,512	49,916	159,428
Furniture, equipment and software	-	6,076,777	6,076,777
Equity in local properties	-	2,622,399	2,622,399
Facilities	-	46,167,776	46,167,776
Track and signal improvements	-	26,342,183	26,342,183
Less: accumulated depreciation and amortization	(5,704,646)	(23,815,515)	(29,520,161)
<b>Buildings and equipment, net</b>	<b>11,732,018</b>	<b>73,285,209</b>	<b>85,017,227</b>
<b>Total capital assets, net</b>	<b>37,265,968</b>	<b>161,102,623</b>	<b>198,368,591</b>
<b>Total noncurrent assets</b>	<b>37,265,968</b>	<b>161,198,572</b>	<b>198,464,540</b>
<b>Total assets</b>	<b>\$ 89,179,336</b>	<b>\$ 191,676,750</b>	<b>\$ 280,856,086</b>

See Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
<b>Current Liabilities</b>			
Accounts payable and other liabilities	\$ 6,339,905	\$ 1,552,457	\$ 7,892,362
Accounts payable - rolling stock	-	546,428	546,428
Accrued expenses	-	2,457,652	2,457,652
Accrued payroll and benefits	433,876	-	433,876
Due to other governments	2,004,859	-	2,004,859
Deferred revenue	337,896	775,270	1,113,166
Capital lease	-	517,445	517,445
Interest payable - capital lease	-	75,684	75,684
Retainage payable	6,010	1,835,370	1,841,380
Compensated absences	9,812	1,653	11,465
Liabilities payable from restricted assets:			
Interim notes payable	2,572,758	-	2,572,758
<b>Total current liabilities</b>	<b>11,705,116</b>	<b>7,761,959</b>	<b>19,467,075</b>
<b>Noncurrent Liabilities</b>			
Capital lease	-	9,375,881	9,375,881
Compensated absences	509,984	188,395	698,379
<b>Total noncurrent liabilities</b>	<b>509,984</b>	<b>9,564,276</b>	<b>10,074,260</b>
<b>Total liabilities</b>	<b>12,215,100</b>	<b>17,326,235</b>	<b>29,541,335</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	34,687,199	148,827,498	183,514,697
Restricted	27,489,706	5,326,609	32,816,315
Unrestricted	14,787,331	20,196,408	34,983,739
<b>Total net assets</b>	<b>76,964,236</b>	<b>174,350,515</b>	<b>251,314,751</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,179,336</b>	<b>\$ 191,676,750</b>	<b>\$ 280,856,086</b>

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year Ended June 30, 2011**

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
<b>Operating Revenues</b>			
Motor fuel tax revenues	\$ 27,197,946	\$ -	\$ 27,197,946
Farebox and passenger revenues	10,961,497	19,404,946	30,366,443
Advertising	159,803	-	159,803
Equipment rental and other	-	119,943	119,943
<b>Total operating revenues</b>	<b>38,319,246</b>	<b>19,524,889</b>	<b>57,844,135</b>
<b>Operating Expenses</b>			
Direct transportation	16,172,866	-	16,172,866
Salaries and related benefits	3,980,227	-	3,980,227
Contractual services	17,763,472	-	17,763,472
Other services	945,078	-	945,078
Materials, supplies and minor equipment	3,278,745	-	3,278,745
Contract operations and maintenance	-	12,833,025	12,833,025
Other operations and maintenance	-	7,763,121	7,763,121
Property leases and access fees	-	7,048,134	7,048,134
Insurance	-	2,427,951	2,427,951
Marketing and sales	-	900,721	900,721
General and administrative	-	3,518,140	3,518,140
<b>Total operating expenses</b>	<b>42,140,388</b>	<b>34,491,092</b>	<b>76,631,480</b>
<b>Operating loss before depreciation and amortization</b>	<b>(3,821,142)</b>	<b>(14,966,203)</b>	<b>(18,787,345)</b>
Depreciation and amortization	(5,843,770)	(6,109,101)	(11,952,871)
<b>Operating loss</b>	<b>(9,664,912)</b>	<b>(21,075,304)</b>	<b>(30,740,216)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Jurisdictional contributions	-	10,841,016	10,841,016
Commonwealth of Virginia grants	5,309,139	-	5,309,139
Federal grants	19,895,670	-	19,895,670
Direct financing lease interest income	38,410	-	38,410
Investment income	37,411	8,990	46,401
Pass-through grants - member jurisdictions	(1,568)	-	(1,568)
Reimbursement from member jurisdiction	370,348	-	370,348
Interest, amortization and other nonoperating expenses, net	(90,548)	(472,458)	(563,006)
Other revenue	214,698	-	214,698
<b>Total nonoperating revenues, net</b>	<b>25,773,560</b>	<b>10,377,548</b>	<b>36,151,108</b>
<b>Capital grants and assistance</b>			
Commonwealth of Virginia grants	1,437,808	8,607	1,446,415
Federal grants	43,878,142	8,513	43,886,655
Capital contributions	18,983	-	18,983
Contribution to NVTC	-	(21,757,117)	(21,757,117)
Other local contributions	-	372,881	372,881
<b>Total capital grants and assistance, net</b>	<b>45,334,933</b>	<b>(21,367,116)</b>	<b>23,967,817</b>
<b>Income (loss) before transfers</b>	<b>61,443,581</b>	<b>(32,064,872)</b>	<b>29,378,709</b>
Transfers, net	(56,464,790)	56,464,790	-
Loss on disposal of assets	(24,915)	(135,803)	(160,718)
<b>Change in net assets</b>	<b>4,953,876</b>	<b>24,264,115</b>	<b>29,217,991</b>
Net Assets, beginning	72,010,360	150,086,400	222,096,760
Net Assets, ending	\$ 76,964,236	\$ 174,350,515	\$ 251,314,751

See Notes to Financial Statements.



**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2011**

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from motor fuel tax	\$ 25,464,271	\$ -	\$ 25,464,271
Receipts from customers	10,519,592	19,907,441	30,427,033
Receipts from advertising	159,803	-	159,803
Payments to suppliers	(21,470,659)	(34,861,265)	(56,331,924)
Payments to member jurisdictions	(15,179,601)	-	(15,179,601)
Payments to employees	(3,903,220)	(2,112,738)	(6,015,958)
<b>Net cash used in operating activities</b>	<b>(4,409,814)</b>	<b>(17,066,562)</b>	<b>(21,476,376)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Interest payments on revenue bonds and interim loan	(74,665)	-	(74,665)
Interest payments on capital leases	-	(471,191)	(471,191)
Principal payments on revenue bonds	(835,000)	-	(835,000)
Principal payments on capital leases	-	(494,487)	(494,487)
Proceeds from sale of assets	10,108	75,000	85,108
Receipts from direct financing lease	873,410	-	873,410
Deferred capital contribution	(18,333)	-	(18,333)
Purchase of buses and related equipment	(2,480,496)	-	(2,480,496)
Acquisition of capital assets	(1,097,558)	(25,964,276)	(27,061,834)
<b>Net cash used in capital and related financing activities</b>	<b>(3,622,534)</b>	<b>(26,854,954)</b>	<b>(30,477,488)</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Federal and state grants bus and rail services	65,862,230	-	65,862,230
Governmental subsidies	-	10,456,541	10,456,541
Interfund transfers	(56,473,845)	56,473,845	-
Payments for jurisdiction grant - related expenditures	(1,568)	(22,430,350)	(22,431,918)
<b>Net cash provided by noncapital financing activities</b>	<b>9,386,817</b>	<b>44,500,036</b>	<b>53,886,853</b>
<b>Cash Flows From Investing Activities</b>			
Investment income	37,411	9,025	46,436
Sales and maturities of investments	1,215,175	-	1,215,175
Other revenues	554,050	-	554,050
<b>Net cash provided by investing activities</b>	<b>1,806,636</b>	<b>9,025</b>	<b>1,815,661</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,161,105</b>	<b>587,545</b>	<b>3,748,650</b>
<b>Cash and Cash Equivalents</b>			
Beginning	34,567,157	10,635,100	45,202,257
Ending	\$ 37,728,262	\$ 11,222,645	\$ 48,950,907

See Notes to Financial Statements.

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>			
Operating loss	\$ (9,664,912)	\$ (21,075,304)	\$ (30,740,216)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	5,843,770	6,109,101	11,952,871
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	(1,830,298)	-	(1,830,298)
Internal balances	(351,074)	351,074	-
Miscellaneous receivables	(94,054)	33,151	(60,903)
Prepaid expenses and other assets	30,450	183,854	214,304
Trade receivables	-	207,725	207,725
Inventory	-	(761,302)	(761,302)
Increase (decrease) in:			
Accounts payable and other liabilities	486,186	(2,256,537)	(1,770,351)
Accrued payroll and benefits	77,007	-	77,007
Due to other governments	993,265	-	993,265
Deferred revenue	99,846	141,676	241,522
<b>Net cash used in operating activities</b>	<b>\$ (4,409,814)</b>	<b>\$ (17,066,562)</b>	<b>\$ (21,476,376)</b>

Schedule of Noncash Capital Activities:

Capital assets acquired through capital contributions	\$ 18,983	\$ 98,684	\$ 117,667
Buses and related equipment acquired through accounts payable	1,952,554	-	1,952,554
Capital assets acquired through accounts payable	471,695	804,870	1,276,565
Capital assets acquired through interim note financing	197,533	-	197,533
Capital assets acquired through retainage payable	6,010	-	6,010
Capital assets acquired through notes payable	-	574,888	574,888
Capital assets acquired through accrued expenses	-	1,437,916	1,437,916

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 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”). Spotsylvania County became a member effective February 15, 2010. 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
Manassas	1	1
Manassas Park	1	1
Fredericksburg	1	1
Commonwealth House of Delegates	2	1
Commonwealth Senate	1	1
Virginia Department of Rail and Public Transportation	1	-
	<hr/>	<hr/>
	17	8

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

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

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Organization (Continued)

Revenues of PRTC consist principally of a 2.1% motor fuel tax, farebox revenue, 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 Taxation. Effective January 1, 2010, the motor fuel tax on fuel sales in PRTC's member jurisdictions was statutorily changed from a retailer-based tax to a distributor-based tax. The statutory change also increased the tax rate from 2.0% to 2.1%. The Department of Taxation collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects serving a particular jurisdiction.

### Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

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

The Northern Virginia Transportation Commission (NVTC) and PRTC reporting entities each include a portion of the financial activity of the joint venture Virginia Railway Express (VRE) commuter rail service. Pursuant to a Master Agreement signed in 1989, NVTC and PRTC jointly (as the "Commissions") own and operate VRE. Assets for VRE operations have been purchased in the name of the Commissions and funded primarily by grants, loans or other financing arrangements for which one or both Commissions have served as grantee, issuer, borrower, or in other related capacities. VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia and terminating at Union Station, Washington, D.C. The service uses existing 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 platform access, storage and other services at Union Station.

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, PRTC has elected to apply all applicable GASB pronouncements, as well as FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Summary of Significant Accounting Policies (Continued)

PRTC reports the following major enterprise funds:

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

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

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

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

***Cash and investments in pooled funds – member jurisdictions***: These assets represent the portion of funds held for the benefit of the member jurisdictions.

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***: Cash and investments held by trustee include bond proceeds and funds designated for specific purposes. The Trustee, The Bank of New York, maintains the resources in appropriate accounts in accordance with the Master Indenture of Trust. The 1997 PRTC Transportation Facilities Lease Revenue Refunding Bonds matured March 1, 2011, so there is no remaining balance held with the trustee as of June 30, 2011. Restricted assets also consist of funds invested in a Virginia Tax Free Institutional Fund in accordance with the applicable interim notes covenants. Funds totaling \$2,838,500 were initially received from the PRTC bus sponsoring jurisdictions for several capital related activities. Subsequently, those activities are being funded by the interim notes, and the \$2,838,500 was reprogrammed for other operating and capital expenses. As of June 30, 2011, the balance in this tax free fund was \$920,891.

Restricted cash, cash equivalents and investments of \$5,274,504 at June 30, 2011 are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, proceeds from the sale of rolling stock, and a small liability claims account.

***Allowance for uncollectible accounts***: The allowance for uncollectible accounts is calculated by using historical collection data and specific account analysis. The allowance was \$223,560 at June 30, 2011.

***Inventory***: An inventory of spare parts for rail rolling stock has been purchased and is maintained and managed at the Commissions' warehouse located in Broad Run. As the result of the transfer of maintenance operations to Keolis Rail Services Virginia, inventory that was previously maintained by Amtrak was shifted to the Commissions' warehouse in June and July 2010. Inventory is stated at cost, which approximates market, and is valued using the first-in, first-out method.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

**Compensated absences:** PRTC employees are granted annual and sick leave based on years of service. In the event of termination, an employee is reimbursed for accumulated annual leave in full, and if applicable, a portion of sick leave. Compensatory time earned by PRTC employees is also payable upon termination of employment. The liability for compensated absences is included in the accompanying financial statements as both a current and noncurrent liability.

The employees of the VRE joint venture are paid through PRTC and are subject to PRTC's leave policies. VRE employees are granted vacation leave based on length of employment. Employees with less than ten years of service may carry over a total of 225 hours of leave from year to year, while those with more than ten years may carry over 300 hours. Excess leave may convert to sick leave or may be paid out with the approval of the Chief Executive Officer.

VRE 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. Compensated absences are accrued when incurred.

**Bond discounts and issuance costs:** Bond discounts and issuance costs are deferred and amortized over the term of the bonds using a method which approximates the effective interest method.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Summary of Significant Accounting Policies (Continued)

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

**Operating revenues and expenses:** Operating revenues are generated from activities related to providing public transportation services to PRTC's customers. PRTC's operating revenues include 2.1% motor fuel tax revenues, farebox revenues, and advertising revenues. Nonoperating revenues include federal and state grants, investment income, and reimbursement from member jurisdiction.

Operating expenses are incurred for activities related to providing public transportation services to PRTC's customers. PRTC's 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.

### Note 3. Cash and Investments

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

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

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Cash and Investments (Continued)**

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

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment if the investment is held for a long period of time. Interest rate risk does not apply to the LGIP since it is a 2a7-like pool.

As of June 30, 2011, the carrying values and maturity of PRTC’s investments were as follows:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total	Fair Value	Maturities Less Than One Year
Money Market	\$ 14,362,000	\$ -	\$ 14,362,000	\$ 14,362,000	\$ 14,362,000
LGIP	23,527,616	5,449,946	28,977,562	28,977,562	28,977,562
	<u>37,889,616</u>	<u>5,449,946</u>	<u>43,339,562</u>	<u>43,339,562</u>	<u>43,339,562</u>
Restricted:					
Tax free money market	920,891	-	920,891	920,891	920,891
Insurance trust fund - pooled funds	-	5,026,483	5,026,483	5,026,483	5,026,483
LGIP	-	248,021	248,021	248,021	248,021
	<u>920,891</u>	<u>5,274,504</u>	<u>6,195,395</u>	<u>6,195,395</u>	<u>6,195,395</u>
<b>Total</b>	<u>\$ 38,810,507</u>	<u>\$ 10,724,450</u>	<u>\$ 49,534,957</u>	<u>\$ 49,534,957</u>	<u>\$ 49,534,957</u>

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

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### Note 3. Cash and Investments (Continued)

#### Authorized Investments

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

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

#### Diversification

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

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

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Cash and Investments (Continued)**

VRE’s investment policy provides limitations on the percentage of the portfolio that can be invested in each type of security, as indicated in the following chart.

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

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

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

	Bus Service and Member Jurisdictions
Stafford County	\$ 4,299,040
Prince William County	7,029,768
City of Manassas	2,059,564
City of Manassas Park	2,370,997
City of Fredericksburg	4,833,869
Spotsylvania County	2,934,378
	\$ 23,527,616

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 4. Due To/From Other Governments**

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions
Virginia Department of Taxation - motor fuel tax receipts	\$ 5,951,184
Virginia Department of Rail and Public Transportation	1,167,436
Federal Transit Administration	18,892,736
Washington Metropolitan Area Transit Authority; Maryland Transit Administration	788,000
Department of Homeland Security	121,412
Virginia Department of Transportation	18,800
Prince William County	2,814
Area Agency on Aging	1,000
Commonwealth of Virginia	168
	<hr/>
	\$ 26,943,550

Amounts due to other governments are as follows:

	Bus Service and Member Jurisdictions
Spotsylvania County	\$ 1,525,350
City of Manassas Park	1,568
City of Fredericksburg	477,941
	<hr/>
	\$ 2,004,859

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2011 are as follows:

	Balance June 30, 2010	Increases	Reclassifications/ Decreases	Balance June 30, 2011
Capital assets not being depreciated or amortized:				
Construction in progress	\$ 23,224,584	\$ 27,995,472	\$ (32,610,818)	\$ 18,609,238
Capital assets being depreciated and amortized:				
Buses and related equipment	53,112,913	4,265,598	(29,303)	57,349,208
Rail rolling stock	87,926,088	-	21,269,216	109,195,304
Furniture and equipment	900,814	49,693	(515,097)	435,410
Bus shelters	797,275	195,629	-	992,904
Building improvements	2,920,477	126,651	(4,200)	3,042,928
Buildings	8,052,341	-	-	8,052,341
Site improvements	1,435,093	-	-	1,435,093
Software and easement	23,000	157,214	420,697	600,911
Vehicles	146,593	12,835	-	159,428
Furniture, equipment and software	6,250,492	82,769	(256,484)	6,076,777
Equity in local properties	2,622,399	-	-	2,622,399
Facilities	39,049,577	-	7,118,199	46,167,776
Track and signal improvements	26,075,500	-	266,683	26,342,183
<b>Total capital assets being depreciated and amortized</b>	<b>229,312,562</b>	<b>4,890,389</b>	<b>28,269,711</b>	<b>262,472,662</b>
Less accumulated depreciation and amortization for:				
Buses and related equipment	26,806,595	5,016,192	(7,529)	31,815,258
Rail rolling stock	21,634,241	3,553,410	(3,809,761)	21,377,890
Furniture and equipment	637,670	65,911	(379,348)	324,233
Bus shelters	358,996	146,454	-	505,450
Building improvements	501,023	182,573	(1,353)	682,243
Buildings	3,353,388	268,512	-	3,621,900
Site improvements	39,967	79,665	-	119,632
Software and easement	-	70,931	307,958	378,889
Vehicles	82,258	15,604	-	97,862
Furniture, equipment and software	4,517,556	385,393	(13,456)	4,889,493
Equity in local properties	1,248,750	74,925	-	1,323,675
Facilities	9,255,089	1,184,149	-	10,439,238
Track and signal improvements	6,228,394	909,152	-	7,137,546
<b>Total accumulated depreciation and amortization</b>	<b>74,663,927</b>	<b>11,952,871</b>	<b>(3,903,489)</b>	<b>82,713,309</b>
<b>Total capital assets being depreciated and amortized, net</b>	<b>154,648,635</b>	<b>(7,062,482)</b>	<b>32,173,200</b>	<b>179,759,353</b>
<b>Totals</b>	<b>\$ 177,873,219</b>	<b>\$ 20,932,990</b>	<b>\$ (437,618)</b>	<b>\$ 198,368,591</b>

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. Long-Term Liabilities**

**Revenue bonds payable:** On February 1, 1991, PRTC issued Transportation Facilities Lease Revenue Bonds, Series 1991A in the aggregate principal amount of \$9,405,000. The Series 1991A bonds were issued to: (1) finance part of the costs of the acquisition, design, and construction of transportation facilities in Prince William County, (2) make certain deposits to the Debt Service Reserve Fund, and (3) pay certain costs of issuance.

On December 1, 1997, PRTC issued \$7,445,000 in Transportation Facilities Lease Revenue Refunding Bonds. The 1997 bonds were issued to “refinance” PRTC’s 1991 bonds to achieve interest cost savings. The refunding of the 1991 bonds was a “crossover” refunding. The proceeds of the 1997 bonds were placed in an escrow account with the Trustee until March 1, 2000 (the crossover refunding date). Through the crossover refunding date, interest on the 1997 bonds was payable from the escrow account. On March 1, 2000, the escrow account crossed over and paid the remaining principal on the 1991 bonds. PRTC continued to pay debt service on the 1991 bonds through March 1, 2000. Beginning with the first interest payment due after the crossover date, which was September 1, 2000, PRTC began making debt service payments on the 1997 bonds, taking advantage of the lower interest rates.

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
1997 facility lease revenue refunding bond, \$7,445,000	\$ 835,000	\$ -	\$ (835,000)	\$ -
1997 bond discount	(22,607)	-	22,607	-
<b>Total long-term liabilities</b>	<b>\$ 812,393</b>	<b>\$ -</b>	<b>\$ 812,393</b>	<b>\$ -</b>

*Pledged Funds*

The payment of principal and interest on the 1997 bonds was secured by a pledge of (1) Prince William County’s portion of 2.1% motor fuel tax revenues, (2) basic rent payments made by Prince William County under the lease of the transportation facilities and certain funds established under the Indenture.

PRTC obtained two interim notes during July 2007 for \$4,200,000 to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard. The outstanding balance was \$2,016,138 for the tax-exempt note and \$556,620 for the taxable note at June 30, 2011. The effective interest rates were 1.32% and 1.89%, respectively, at June 30, 2011.

**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 \$22,827,036 (PRTC reporting entity, \$11,413,518)	\$ 19,786,652	\$ 9,893,326

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

**Note 6. Long-Term Liabilities (Continued)**

Future minimum lease payments as of June 30, 2011 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2012	\$ 1,931,357	\$ 965,679
2013	1,931,357	965,679
2014	1,931,357	965,679
2015	1,931,357	965,678
2016	1,931,357	965,678
2017-2021	9,656,785	4,828,392
2022-2025	7,725,428	3,862,714
Total minimum lease payments	27,038,998	13,519,499
Lease amount representing interest	7,252,346	3,626,173
Present value of lease payments	\$ 19,786,652	\$ 9,893,326

**Note 7. Net Assets**

Restricted net assets represent net assets that are subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net assets as of June 30, 2011:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Member jurisdictions	\$ 27,489,706	\$ -	\$ 27,489,706
Insurance trust fund	-	5,026,484	5,026,484
Grants and contributions	-	300,125	300,125
	\$ 27,489,706	\$ 5,326,609	\$ 32,816,315

Unrestricted net assets consist of the following as of June 30, 2011:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support next year budget	\$ 3,300,000	\$ -	\$ 3,300,000
Local match for grants	1,863,426	-	1,863,426
Local funding for capital projects (non grant related)	205,234	-	205,234
<b>Total designations</b>	5,368,660	-	5,368,660
Undesignated unrestricted net assets	9,418,671	20,196,408	29,615,079
<b>Total unrestricted net assets</b>	\$ 14,787,331	\$ 20,196,408	\$ 34,983,739

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **Note 8. Joint Venture - Virginia Railway Express**

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

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

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

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

Pursuant to a Master Agreement signed in 1989, NVTC and PRTC jointly (as the "Commissions") own and operate VRE. VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia and terminating at Union Station, Washington, D.C. The service uses existing track of the CSX Transportation Corporation ("CSX"), and the Norfolk Southern Railway Company, under respective operating access agreements. The provisions of the 1998 agreement with Amtrak for maintenance of equipment, access to Union Station, and train operations terminated on June 25, June 28 and July 9, 2011, respectively.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, consisting of three commissioners appointed from each of NVTC and PRTC 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 net income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bond issues, lease financing, Federal and Commonwealth of Virginia grants, and local jurisdictional contributions based on a population/ridership formula that is supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania, and Stafford; and the cities of Manassas, Manassas Park, and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. The VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction, effective February 15, 2010. Spotsylvania County's share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2012 has been deferred until 60 days after the beginning of fiscal year 2013.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

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 then current 90% system ridership and 10% population formula. The amendment to the subsidy formula is being 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.

Financial information from VRE's fiscal year 2011 audited financial statements is shown below.

### VIRGINIA RAILWAY EXPRESS STATEMENT OF NET ASSETS June 30, 2011

<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 9,921,706
Accounts receivable:	
Due from PRTC – funded by FTA	14,533,706
Federal grants – other	121,412
Commonwealth of Virginia grants	3,640,249
Trade and other, net of allowance	3,927,195
Inventory	4,715,458
Prepaid expenses and other	465,647
Restricted cash, cash equivalent, and investments	16,808,248
<b>Total current assets</b>	<u>54,133,621</u>
Noncurrent Assets	
Deferred bond and lease costs, net	1,396,804
Capital assets (net of \$85,815,038 accumulated depreciation and amortization)	322,205,246
<b>Total noncurrent assets</b>	<u>323,602,050</u>
<b>Total assets</b>	<u>\$ 377,735,671</u>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 10,155,637
Unearned revenue	1,293,177
Contract retainage	3,670,741
Current portion of:	
Capital lease obligations	1,034,890
Long-term debt	5,610,000
Notes payable	1,734,009
<b>Total current liabilities</b>	<u>23,498,454</u>
Noncurrent Liabilities	
Capital lease obligations	18,751,762
Notes payable	61,951,602
Bonds payable, net	18,319,892
Compensated absences	314,250
<b>Total noncurrent liabilities</b>	<u>99,337,506</u>
<b>Total liabilities</b>	<u>122,835,960</u>



POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

VIRGINIA RAILWAY EXPRESS  
STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2011

Net Assets	
Invested in capital assets, net of related debt	\$ 210,039,494
Restricted for liability insurance plan	10,052,968
Restricted for debt service and capital lease	6,259,239
Restricted grants or contributions	600,250
Unrestricted assets	27,947,760
<b>Total net assets</b>	<u>254,899,711</u>
<b>Total liabilities and net assets</b>	<u>\$ 377,735,671</u>

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

Year Ended June 30, 2011

Operating revenues	\$ 32,568,192
Operating expenses	57,628,912
<b>Operating loss before depreciation and amortization</b>	<u>(25,060,720)</u>
Depreciation and amortization	(12,218,203)
<b>Operating loss</b>	<u>(37,278,923)</u>
Nonoperating revenues (expenses):	
Subsidies:	
Commonwealth of Virginia grants	12,806,509
Federal grants – with PRTC as grantee	16,157,284
Jurisdictional contributions	16,070,307
Interest income:	
Operating funds	14,675
Other restricted funds	384
Interest, amortization and other nonoperating expenses, net	(5,566,829)
<b>Total nonoperating revenues, net</b>	<u>39,482,330</u>
Capital grants and assistance:	
Commonwealth of Virginia grants	7,506,606
Federal grants – with PRTC as grantee	40,136,130
Federal grants – NVTC and other	3,308,513
Other local contributions	406,331
<b>Total capital grants and assistance</b>	<u>51,357,580</u>
Loss on disposal of assets	<u>(271,606)</u>
<b>Change in net assets</b>	53,289,381
Net assets, beginning	<u>201,610,330</u>
Net assets, ending	<u>\$ 254,899,711</u>

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 9. Revenue from Member Jurisdictions

Effective May 13, 1991, Prince William County transferred operating responsibility of its OmniRide (Commuteride) Program to PRTC. The program consists of express commuter bus service from the County to the District of Columbia, as well as ridesharing services. During the fiscal year 1995, PRTC began operating local bus service (“OmniLink”) within Prince William County and in fiscal year 1996 began local bus service in the cities of Manassas and Manassas Park. These services are financed by passenger fares, federal and state grants, 2.1% motor fuel tax, and other jurisdictional payments.

### Note 10. 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, 2011, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	\$ 10,841,016
Other jurisdictional projects and fees	3,815,386
Deposits to 1997 bond funds	873,410
Refunded IDA bonds/lease participation certificates debt service	643,054
	<u>\$ 16,172,866</u>

VRE payments are made in accordance with operating and capital budgets prepared by VRE and adopted by its Operations Board.

### Note 11. Risk Management and Liability Insurance Plan

PRTC and the VRE commuter rail operation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to address these risks, including workers’ compensation and employee health and accidental insurance. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE’s Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to \$250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately \$307,000 at June 30, 2011, of which \$153,500 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

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#### Note 11. 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 2010, all plan assets have been invested in the Department of Treasury common pool. Prior to that time, approximately one-half of plan assets were invested in the common pool, and the remainder was invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the year ended June 30, 2011 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1	\$ 9,511,797	\$ 4,755,899
Contribution to reserves	4,525,000	2,262,500
Insurance premiums paid	(3,711,476)	(1,855,738)
Claims mitigation costs and losses incurred	(190,585)	(95,293)
Actuarial and administrative charges	(81,768)	(40,884)
Ending balance, June 30	<u>\$ 10,052,968</u>	<u>\$ 5,026,484</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 12. Related Party Transactions

For the year ended June 30, 2011, expenses incurred for legal services provided by Prince William County were \$39,000.

#### Note 13. 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, 2011 were \$17,540.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2011 were \$36,168.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 14. Defined Benefit Pension Plan

#### A. Plan Description

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

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

VRS administers two defined benefit plans for PRTC employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for PRTC members is 1.70 percent. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00 percent; under Plan 2, the COLA cannot exceed 6.00 percent. During years of no inflation or deflation, the COLA is 0.00 percent. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for VRS. A copy of that report may be obtained from their website at <http://www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf> or obtained by writing to the system's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

**Note 14. Defined Benefit Pension Plan (Continued)**

**B. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute five percent of their compensation toward their retirement. All or part of the five percent member contribution may be assumed by the employer. In addition, PRTC is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. PRTC's contribution rate for the fiscal year ended June 30, 2011 was 10.92 percent of annual covered payroll, *inclusive of the five percent member contribution, and PRTC also contributed 0.28 percent for group life insurance.*

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2011, 2010, and 2009 was as follows:

	2011	2010	2009
PRTC employees	\$ 2,677,361	\$ 2,649,083	\$ 2,666,461
VRE employees	3,060,302	3,023,072	2,967,956

Total payroll for the years ended June 30, 2011, 2010, and 2009 was as follows:

	2011	2010	2009
PRTC employees	\$ 2,965,639	\$ 2,916,320	\$ 2,986,896
VRE employees	3,142,184	3,085,634	3,024,203

**C. Annual Pension Cost**

For fiscal year 2011, PRTC's annual pension cost of \$626,553 was equal to the required and actual contributions.

Three-Year Trend Information for PRTC

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$ 647,394	100.0%	\$ -
June 30, 2010	651,731	100.0%	-
June 30, 2011	626,553	100.0%	-

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 14. Defined Benefit Pension Plan (Continued)

#### C. Annual Pension Cost (Continued)

The fiscal year 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50 percent, (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50 percent per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the PRTC's assets is equal to the modified market value of assets (VRE's assets are not separated from PRTC's). This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five year period. PRTC's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

As of June 30, 2010, the most recent actuarial valuation date, the plan was 87.87 percent funded. The actuarial accrued liability for benefits was \$8,539,776 and the actuarial value of assets was \$7,503,689, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,036,087. The covered payroll (annual payroll of active employees of the plan) was \$5,733,383 and the ratio of the UAAL to the covered payroll was 18.07 percent. The only other postemployment benefits offered by PRTC are COBRA payments, which have been determined to be immaterial to the financial statements.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

### Note 15. Contingencies and Contractual Commitments

#### Fuel Contractual Commitments

As of June 30, 2011, PRTC has entered into contracts at various times in July 2010 through June 2011 to purchase fuel at set prices for delivery in July 2011 through December 2011. The total commitment is for 462,000 gallons of fuel at approximately \$1.3 million. The fuel will be used in the normal course of business and is not being purchased for resale.

#### Federal and State-Assisted Programs

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

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

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 15. Contingencies and Contractual Commitments (Continued)

At June 30, 2011, 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, 2011:

Stations and parking lots	\$ 3,473,961
Rail rolling stock	8,953,685
Maintenance and layover yards	1,915,297
Track and signal improvements	668,212
Other administrative	562,031
<b>Total</b>	<b>\$ 15,573,186</b>

At the end of fiscal year 2011, VRE was holding the proceeds of the sale of older equipment in the amount of \$450,250 in a restricted account, to be used for the purchase of replacement rolling stock, of which \$225,125 is included in the PRTC reporting entity. Included in other receivables is \$150,000 due to VRE from the sale of rolling stock, of which \$75,000 is included in the PRTC reporting entity. Once collected, the proceeds will be used for the purchase of replacement rolling stock.

### Note 16. 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, 2011, annual track usage fees totaled approximately \$6,210,000, of which \$3,725,900 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately \$454,000, of which \$272,400 is recognized by the PRTC reporting entity.

The new agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on June 28, 2010. Actual cost for the year ended June 30, 2011 was approximately \$8,759,000, of which \$5,255,400 was recognized by the PRTC reporting entity. Costs in future years will be adjusted based on changes to various published costs indices and the number of trains that have access to and are stored and serviced at the terminal.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Note 16. Operating Leases (Continued)

During fiscal year 2010 the Commissions entered into a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. The actual cost of train operations and maintenance for the year ended June 30, 2011, based on an annual budget prepared in advance, was approximately \$18,151,000 including a small amount for the completion of mobilization services, of which \$10,890,600 is recognized by the PRTC reporting entity. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

VRE has entered into a series of operating leases with Titan Transit for locomotives. For the year ended June 30, 2011, lease costs totaled approximately \$168,000, of which \$100,800 is recognized by the PRTC reporting entity. These leases are scheduled to terminate during the first quarter of fiscal year 2012.

### Note 17. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	\$ -	\$ 56,522,688	\$ 56,522,688
Commuter Rail Service	(57,898)	-	(57,898)
<b>Total transferred in</b>	<b>\$ (57,898)</b>	<b>\$ 56,522,688</b>	<b>\$ 56,464,790</b>

The transfer from the Commuter Rail Fund to the Bus Service and Member Jurisdictions Fund is for general administrative services related to grant activity performed by staff of PRTC for VRE.

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

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#### **Note 18. Pending GASB Statements**

At June 30, 2011, 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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Statement No. 62 will be effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Statement No. 63 will be effective for periods beginning after December 15, 2011.

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

#### **Note 19. Subsequent Events**

PRTC has entered into contracts at various times from August 2011 through December 2011 to purchase fuel at set prices for delivery in December 2011 through November 2012. The total commitment is for 924,000 gallons of fuel at approximately \$2.6 million. The fuel will be used in the normal course of business and is not being purchased for resale.

The Commissions entered into contracts for the VRE joint venture at various times from May 2011 through September 2011 to purchase fuel at set prices for delivery in July 2011 through June 2012. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 798,000 gallons of fuel at a cost of approximately \$2.5 million.

***REQUIRED SUPPLEMENTARY INFORMATION***

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2010	\$ 7,503,689	\$ 8,539,776	\$ 1,036,087	87.87%	\$ 5,733,383	18.07%
June 30, 2009	6,809,891	6,996,387	186,496	97.33%	5,743,627	3.25%
June 30, 2008	5,875,612	6,065,059	189,447	96.88%	5,369,542	3.53%

Note: Since PRTC and VRE are combined for the actuarial valuation, the amounts above include both entities.

***SUPPLEMENTARY INFORMATION***

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET ASSETS - BUS SERVICE AND MEMBER JURISDICTIONS  
June 30, 2011 and 2010

ASSETS	2011	2010
Current Assets		
Cash and investments in bank	\$ 14,200,646	\$ 16,470,984
Cash and investments in pooled funds	-	953,195
Cash and investments in pooled funds - member jurisdictions	23,527,616	17,142,978
Receivables:		
Due from other governments	26,943,550	20,488,912
Due from Virginia Railway Express	835,429	484,355
Miscellaneous	110,085	16,031
Prepaid expenses and other assets	30,272	60,722
Restricted assets:		
Tax free money market	920,891	920,370
Investments held by trustee	-	1,215,175
<b>Total current assets</b>	<b>66,568,489</b>	<b>57,752,722</b>
Noncurrent Assets		
Other assets:		
Unamortized bond issuance costs, net	-	6,078
Net investment in direct financing lease	-	660,984
<b>Total other assets</b>	<b>-</b>	<b>667,062</b>
Capital assets:		
Transportation equipment:		
Buses and related equipment	57,349,208	53,112,913
Less: accumulated depreciation	(31,815,258)	(26,806,595)
<b>Transportation equipment, net</b>	<b>25,533,950</b>	<b>26,306,318</b>
Buildings and equipment:		
Furniture and equipment	435,410	385,717
Bus shelters	992,904	797,275
Building improvements	3,042,928	2,920,477
Buildings	8,052,341	8,052,341
Site improvements	1,435,093	1,435,093
Software and easement	600,911	538,097
Construction in progress	2,767,565	1,815,795
Vehicles	109,512	109,512
Less: accumulated depreciation and amortization	(5,704,646)	(4,949,811)
<b>Buildings and equipment, net</b>	<b>11,732,018</b>	<b>11,104,496</b>
<b>Total capital assets, net</b>	<b>37,265,968</b>	<b>37,410,814</b>
<b>Total noncurrent assets</b>	<b>37,265,968</b>	<b>38,077,876</b>
<b>Total assets</b>	<b>\$ 103,834,457</b>	<b>\$ 95,830,598</b>

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current Liabilities</b>		
Accounts payable and other liabilities	\$ 6,339,905	\$ 3,820,813
Accrued payroll and benefits	433,876	417,537
Due to other governments	2,004,859	1,011,594
Due to Virginia Railway Express	14,655,121	14,607,846
Deferred revenue	337,896	302,899
Compensated absences	9,812	22,056
Retainage payable	6,010	-
Liabilities payable from restricted assets:		
Interim notes payable	2,572,758	2,375,225
Bond interest payable	-	12,803
Revenue bonds payable - current portion	-	812,393
<b>Total current liabilities</b>	<b>26,360,237</b>	<b>23,383,166</b>
<b>Noncurrent Liabilities</b>		
Compensated absences	509,984	437,072
<b>Total noncurrent liabilities</b>	<b>509,984</b>	<b>437,072</b>
<b>Total liabilities</b>	<b>26,870,221</b>	<b>23,820,238</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	34,687,199	34,884,180
Restricted	27,489,706	22,599,594
Unrestricted	14,787,331	14,526,586
<b>Total net assets</b>	<b>76,964,236</b>	<b>72,010,360</b>
<b>Total liabilities and net assets</b>	<b>\$ 103,834,457</b>	<b>\$ 95,830,598</b>

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
BUS SERVICE AND MEMBER JURISDICTIONS  
Years Ended June 30, 2011 and 2010**

	2011	2010
Operating Revenues		
Motor fuel tax revenues	\$ 27,197,946	\$ 20,316,515
Farebox revenues	10,961,497	9,382,458
Advertising revenue	159,803	719,510
<b>Total operating revenues</b>	<b>38,319,246</b>	<b>30,418,483</b>
Operating Expenses		
Direct transportation	16,172,866	15,219,932
Salaries and related benefits	3,980,227	3,895,289
Contractual services	17,763,472	16,657,228
Other services	945,078	1,004,697
Materials, supplies and minor equipment	3,278,745	2,489,531
<b>Total operating expenses</b>	<b>42,140,388</b>	<b>39,266,677</b>
<b>Operating loss before depreciation and amortization</b>	<b>(3,821,142)</b>	<b>(8,848,194)</b>
Depreciation and amortization	(5,843,770)	(5,434,154)
<b>Operating loss</b>	<b>(9,664,912)</b>	<b>(14,282,348)</b>
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	5,309,139	5,545,344
Federal grants	19,895,670	21,079,137
Direct financing lease interest income	38,410	74,810
Investment income	37,411	53,260
Pass-through grants - third party provider	-	(12,935)
Pass-through grants - member jurisdictions	(1,568)	(732)
Reimbursement from member jurisdiction	370,348	597,151
Interest expense	(90,548)	(165,112)
Other revenue	214,698	173,457
<b>Total nonoperating revenues, net</b>	<b>25,773,560</b>	<b>27,344,380</b>
Capital grants and assistance		
Commonwealth of Virginia grants	1,437,808	3,580,952
Federal grants	43,878,142	14,038,192
Capital contributions	18,983	43,421
<b>Total capital grants and assistance</b>	<b>45,334,933</b>	<b>17,662,565</b>
<b>Income before transfers</b>	<b>61,443,581</b>	<b>30,724,597</b>
Transfers in	57,898	76,362
Transfers out	(56,522,688)	(29,963,143)
Transfers, net	(56,464,790)	(29,886,781)
Gain (loss) on disposal of assets	(24,915)	5,252
<b>Change in net assets</b>	<b>4,953,876</b>	<b>843,068</b>
Net Assets, beginning	72,010,360	71,167,292
Net Assets, ending	\$ 76,964,236	\$ 72,010,360

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**COMPARATIVE STATEMENTS OF NET ASSETS - COMMUTER RAIL SERVICE**  
**June 30, 2011 and 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
Current Assets		
Cash and investments in bank	\$ 5,948,141	\$ 5,835,552
Receivables:		
Due from other governments	121,412	190,368
Due from PRTC	14,533,709	13,843,349
Trade receivables, net of allowance for doubtful accounts	2,211,901	2,345,215
Miscellaneous	117,827	69,883
Inventory	2,826,954	2,002,128
Prepaid expenses and other assets	279,159	448,774
Restricted cash, cash equivalents and investments	5,274,504	4,799,548
<b>Total current assets</b>	<b>31,313,607</b>	<b>29,534,817</b>
Noncurrent Assets		
Other assets:		
Deferred bond and lease costs, net	95,949	101,000
Capital assets:		
Transportation equipment:		
Rail rolling stock	109,195,304	87,926,088
Less: accumulated depreciation	(21,377,890)	(21,634,241)
<b>Transportation equipment, net</b>	<b>87,817,414</b>	<b>66,291,847</b>
Buildings and equipment:		
Construction in progress	15,841,673	21,408,789
Vehicles	49,916	37,081
Furniture, equipment, and software	6,076,777	6,250,492
Equity in local properties	2,622,399	2,622,399
Facilities	46,167,776	39,049,577
Track and signal improvements	26,342,183	26,075,500
Less: accumulated depreciation and amortization	(23,815,515)	(21,273,278)
<b>Buildings and equipment, net</b>	<b>73,285,209</b>	<b>74,170,560</b>
<b>Total capital assets, net</b>	<b>161,102,623</b>	<b>140,462,407</b>
<b>Total noncurrent assets</b>	<b>161,198,572</b>	<b>140,563,407</b>
<b>Total assets</b>	<b>\$ 192,512,179</b>	<b>\$ 170,098,224</b>



<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current Liabilities</b>		
Accounts payable and other liabilities	\$ 1,552,457	\$ 1,900,633
Accounts payable - rolling stock	546,428	804,782
Accrued expenses	2,457,652	4,587,487
Due to PRTC	835,429	483,647
Deferred revenue	775,270	614,109
Capital lease	517,445	494,487
Interest payable - capital lease	75,684	79,467
Retainage payable	1,835,370	988,283
Compensated absences	1,653	850
<b>Total current liabilities</b>	<b>8,597,388</b>	<b>9,953,745</b>
<b>Noncurrent Liabilities</b>		
Capital lease	9,375,881	9,893,326
Compensated absences	188,395	164,753
<b>Total noncurrent liabilities</b>	<b>9,564,276</b>	<b>10,058,079</b>
<b>Total liabilities</b>	<b>18,161,664</b>	<b>20,011,824</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	148,827,498	128,281,529
Restricted for liability insurance plan	5,026,484	4,755,898
Restricted grants and contributions	300,125	17,309
Unrestricted	20,196,408	17,031,664
<b>Total net assets</b>	<b>174,350,515</b>	<b>150,086,400</b>
<b>Total liabilities and net assets</b>	<b>\$ 192,512,179</b>	<b>\$ 170,098,224</b>

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
COMMUTER RAIL SERVICE  
Years Ended June 30, 2011 and 2010**

	2011	2010
Operating Revenues		
Passenger revenues	\$ 19,404,946	\$ 17,443,603
Equipment rental and other	119,943	143,743
<b>Total operating revenues</b>	<b>19,524,889</b>	<b>17,587,346</b>
Operating Expenses		
Contract operations and maintenance	12,833,025	11,790,727
Other operations and maintenance	7,763,121	7,004,819
Property leases and access fees	7,048,134	5,509,931
Insurance	2,427,951	2,245,472
Marketing and sales	900,721	731,597
General and administrative	3,518,140	3,202,287
<b>Total operating expenses</b>	<b>34,491,092</b>	<b>30,484,833</b>
<b>Operating loss before depreciation and amortization</b>	<b>(14,966,203)</b>	<b>(12,897,487)</b>
Depreciation and amortization	(6,109,101)	(5,668,703)
<b>Operating loss</b>	<b>(21,075,304)</b>	<b>(18,566,190)</b>
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	10,841,016	11,074,197
Investment income	8,990	46,759
Interest, amortization and other nonoperating expenses, net	(472,458)	(494,566)
<b>Total nonoperating revenues, net</b>	<b>10,377,548</b>	<b>10,626,390</b>
Capital grants and assistance		
Commonwealth of Virginia grants	8,607	355,271
Federal grants - NVTC and other	8,513	402,355
Contribution to NVTC	(21,757,117)	(1,697,091)
Other local contributions	372,881	640,631
<b>Total capital grants and assistance, net</b>	<b>(21,367,116)</b>	<b>(298,834)</b>
<b>Loss before transfers</b>	<b>(32,064,872)</b>	<b>(8,238,634)</b>
Transfers out	(57,898)	(76,362)
Transfers in	56,522,688	29,963,143
Transfers, net	56,464,790	29,886,781
Loss on disposal of assets	(135,803)	(196,709)
<b>Change in net assets</b>	<b>24,264,115</b>	<b>21,451,438</b>
Net Assets, beginning	150,086,400	128,634,962
Net Assets, ending	\$ 174,350,515	\$ 150,086,400

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF MEMBER JURISDICTIONS' FUNDS**

**Year Ended June 30, 2011**

	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, 2010	\$ 3,870,993	\$ 1,797,809	\$ 2,409,468	\$ 7,670,620	\$ 3,480,122	\$ 1,202,212	\$ 20,431,224
Funds Received:							
Motor fuel tax	1,684,144	1,894,846	980,220	14,089,151	5,181,825	3,367,760	27,197,946
Other	-	151,751	-	2,874,080	-	-	3,025,831
Interest	8,551	2,812	4,392	5,744	5,587	3,549	30,635
Total funds received	1,692,695	2,049,409	984,612	16,968,975	5,187,412	3,371,309	30,254,412
Funds Disbursed:							
Direct transportation expenses:							
VRE capital support	405,980	871,611	544,763	6,384,660	2,634,002	-	10,841,016
Other projects	545,211	286,323	124,807	-	485,751	2,373,294	3,815,386
Deposits to 1997 bond fund	-	-	-	873,410	-	-	873,410
Debt service for refunded IDA bonds	-	-	-	643,054	-	-	643,054
Transfers to PRTC:							
Administrative expenses	9,608	22,400	13,800	180,800	53,258	-	279,866
OmniRide, OmniLink, Capital Improvement, Marketing	-	193,780	146,330	6,403,088	-	-	6,743,198
Total funds disbursed	960,799	1,374,114	829,700	14,485,012	3,173,011	2,373,294	23,195,930
Funds Available - June 30, 2011	\$ 4,602,889	\$ 2,473,104	\$ 2,564,380	\$ 10,154,583	\$ 5,494,523	\$ 2,200,227	\$ 27,489,706

Note 1 - The schedule of member jurisdictions' funds is prepared on an accrual basis and reflects the funds held by PRTC for the benefit of the various member jurisdictions and the activity for the year ended June 30, 2011. Total funds available reconcile to amounts reported on the Statement of Net Assets as follows:

Cash and investments in pooled funds - member jurisdictions	\$ 23,527,616
Due from other governments - Motor fuels tax revenue receipts (see Note 4)	5,951,184
Due from other governments - DRPT	14,197
Due to other governments - member jurisdictions	<u>(2,003,291)</u>
	<u>\$ 27,489,706</u>

Note 2 - Expenses for other jurisdictional projects consist of:

	City of Fredericksburg	City of Manassas	City of Manassas Park	County of Stafford	County of Spotsylvania	Total
Road improvements/maintenance	\$ 67,271	\$ -	\$ 124,807	\$ 61,353	\$ -	\$ 253,431
Station maintenance	34,558	-	-	-	-	34,558
Street signs, human services transportation, professional services	-	-	-	66,156	-	66,156
Parking garage debt service, parking leases	-	286,323	-	-	-	286,323
FRED transit costs	443,382	-	-	358,242	421,332	1,222,956
Transportation salaries/benefits; debt service	-	-	-	-	1,951,962	1,951,962
	<u>\$ 545,211</u>	<u>\$ 286,323</u>	<u>\$ 124,807</u>	<u>\$ 485,751</u>	<u>\$ 2,373,294</u>	<u>\$ 3,815,386</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2011

	State Grant Number	Expenditures
<u>Direct Payments:</u>		
VDR&PT:		
Formula assistance	72010-33;72011-33	\$ 3,755,439
Ridesharing assistance	71010-11;71011-11	120,000
Transportation intern	71209-01	15,893
Demo SmarTrip POS	71004-39	-
TEIF Youth Outreach	71410-02	17,883
FY09-TMP Bus Service	72509-61	287,272
Rideshare Assistance	72509-67;72510-76	60,000
SmarTrip expansion program	73501-52	96,632
Capital - FY01	73001-21	132,642
Capital - FY06	73006-22	13,195
Capital - FY07	73007-26	77,582
Capital - FY08	73008-09	176,850
Capital - FY09	73009-65	285,474
Capital - FY09	73009-66	15,802
Capital - FY09	73009-67	138,047
Capital - FY09	73009-68	18,229
Capital - FY09	73009-69	22,932
Capital - FY09	73009-70	7,826
Capital - FY09	73009-71	36,000
Capital - FY09	73009-72	-
Capital - FY09	73009-74	299,298
Capital - FY09	73109-48	30,596
Capital - FY10	73010-73	109,664
Capital - FY10	73010-74	110,467
Capital - FY10	73010-77	3,233
Capital - FY10	73010-78	1,586
Capital - FY10	73010-79	64,294
Capital - FY11	71111-02	118,750
Capital - FY11	73011-79	121,786
Capital- FY 11	73011-81	3,077
Capital- FY 11	73011-82	15,513
Capital- FY 11	73011-83	10,113
Capital- FY 11	73011-84	32,401
Capital- FY 11	73011-85	119,350
Capital- FY 11	73011-86	251
Capital- FY 11	73011-87	206,891
Capital- FY 11	73011-88	165,483
Capital- FY 11	73011-90	8,728
Capital- FY 11	73011-92	6,623
		<u>6,705,802</u>
<u>Passthrough Payments:</u>		
Virginia Department of Transportation Congestion Mitigation & Air Quality (CMAQ)		<u>7,844</u>
Virginia Department of Transportation TMP Marketing		<u>2,093</u>
<b>Total State Awards Expended</b>		<u><u>\$ 6,715,739</u></u>

(1) Prepaid CPOS funds of \$-0- and \$31,208 classified as deferred revenue in the Comparative Statements of Net Assets at June 30, 2011 and 2010.

***COMPLIANCE SECTION***

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2011**

Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number	Federal CFDA Number	Expenditures
<u>Direct Payments:</u>		
Federal Transit Administration:		
VA-04-0043	20.500	\$ 152,980
VA-05-0044	20.500	1,570,395
VA-90-X353	20.507	3,162,492
VA-95-X046	20.507	1,939,344
VA-96-X009 ARRA	20.507	429,680
VA-03-0079	20.500	107,316
VA-03-0102	20.500	19,972
VA-03-0114	20.500	7,433,760
VA-04-0015	20.500	1,707,610
VA-05-0038	20.500	597,074
VA-05-0041	20.500	42,995
VA-05-0042	20.500	6,076,838
VA-05-0046	20.500	4,969,301
VA-90-X232	20.507	157,647
VA-90-X269	20.507	9,377
VA-90-X271	20.507	161,876
VA-90-X307	20.507	337,649
VA-90-X329	20.507	1,931,424
VA-90-X352	20.507	10,706,812
VA-95-X017	20.507	265,220
VA-95-X046	20.507	9,787,715
VA-95-X057	20.507	22,704
VA-96-X009 ARRA	20.507	8,312,603
Pending Grant CFDA Identification	20.000	9,604
Pending Grant Identification Number	20.507	3,479,577
		<u>63,391,965</u>
<u>Passthrough Payments:</u>		
Prince William County:		
National Capital Regional Transportation Planning Board (TPB)	20.521	<u>65,582</u>
Metropolitan Washington Council of Governments:		
TIGER	20.932	<u>104,865</u>
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (CMAQ)	20.205	<u>31,379</u>
Virginia Department of Transportation:		
TMP Marketing	20.205	<u>8,372</u>
DC Homeland Security and Emergency Management Agency:		
Department of Homeland Security	97.075	<u>156,340</u>
<b>Total Federal Awards Expended</b>		<u><u>\$ 63,758,503</u></u>

See Note to Schedule of Expenditures of Federal Awards.

# POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

## NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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### Note 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation and Accounting

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

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

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

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

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

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

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





**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 the financial statements of the Potomac and Rappahannock Transportation Commission (Commission) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. 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.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 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 and specifications 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters we reported to management of the Commission in a separate letter dated January 26, 2012.

This report is intended solely for the information and use of the Commissioners, management, the Auditor of Public Accounts, and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
January 26, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Potomac and Rappahannock Transportation Commission (Commission) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the 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, 2011.

## Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Commissioners, management, the Auditor of Public Accounts, and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
January 26, 2012

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

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I. SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	_____	Yes	√	_____	No
Significant deficiency identified	_____	Yes	√	_____	None Reported
Noncompliance material to financial statements noted	_____	Yes	√	_____	No

**Federal awards**

Internal control over major programs:

Material weaknesses identified	_____	Yes	√	_____	No
Significant deficiency identified	_____	Yes	√	_____	None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	Yes	√	_____	No
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
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Federal Transit Cluster:

20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants (including ARRA Funds)

Dollar threshold used to distinguish between type A and type B programs: \$1,912,755

Auditee qualified as low-risk auditee?	_____	Yes	√	_____	No
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

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II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2011**

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The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audits' Summary Schedule of Prior Audit Findings.