

**POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION**

FINANCIAL STATEMENTS

JUNE 30, 2009

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' 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 years ended June 30, 2009 and 2008, 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

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, 2009 and 2008, and the changes in its financial position and its cash flows where applicable thereof for the years 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 October 16, 2009 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 audits.

The management's discussion and analysis (pages 3 to 8) and the required supplementary information (page 32) 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 audits were 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 Expenses 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 audits 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
October 16, 2009

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, 2009. 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. It should be read in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2009, total assets of PRTC exceeded total liabilities by \$71,167,292. Of this amount, \$9,778,721 may be used to meet PRTC's on-going obligations.

The net assets of PRTC decreased by \$7,609,954 during the current fiscal year.

OVERVIEW OF THE 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 four components: statements of net assets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net assets* present 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 *statements of revenues, expenses and changes in net assets* present information on revenues, expenses, and changes in PRTC's net assets during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements 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 *statements of cash flows* summarize 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 statements 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 statements of net assets; statements of revenues, expenses and changes in net assets; and statements of cash flows. The notes to the financial statements can be found immediately following the financial statements.

The financial statements briefly discussed above provide information on all functions of PRTC as a business-type activity. The activities of PRTC are supported by the 2% motor fuels tax within the member jurisdictions, fare collections from passengers, and federal, state, and local assistance.

FINANCIAL ANALYSIS

Statements of Net Assets

Total assets of PRTC exceeded total liabilities by \$71,167,292 as of June 30, 2009. A significant portion of this (48%) is invested in net capital assets less any related debt that is still outstanding. PRTC uses these capital assets to provide express 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. These capital assets are not available for future spending.

A condensed summary of PRTC's net assets at June 30, 2009, 2008, and 2007 is shown below.

	2009	2008	2007
ASSETS:			
Current assets	\$ 51,423,838	\$ 52,350,932	\$ 51,724,881
Noncurrent assets	1,309,459	1,924,149	2,515,092
Capital assets, net	38,253,305	36,930,496	32,619,933
Total assets	90,986,602	91,205,577	86,859,906
LIABILITIES:			
Current liabilities	18,467,960	10,883,760	10,856,282
Noncurrent liabilities	1,351,350	1,544,571	2,275,660
Total liabilities	19,819,310	12,428,331	13,131,942
NET ASSETS:			
Invested in capital assets, net of related debt	34,344,162	35,070,016	32,090,931
Restricted	27,044,409	36,134,565	29,436,945
Unrestricted	9,778,721	7,572,665	12,200,088
Total net assets	\$ 71,167,292	\$ 78,777,246	\$ 73,727,964

Approximately 38% of PRTC's net assets represent resources that are restricted. Of the restricted net assets, at June 30, 2009, \$24,878,489 is restricted cash for member jurisdictions, and the remaining \$2,165,920 is restricted for debt service.

Statements of Revenues, Expenses and Changes in Net Assets

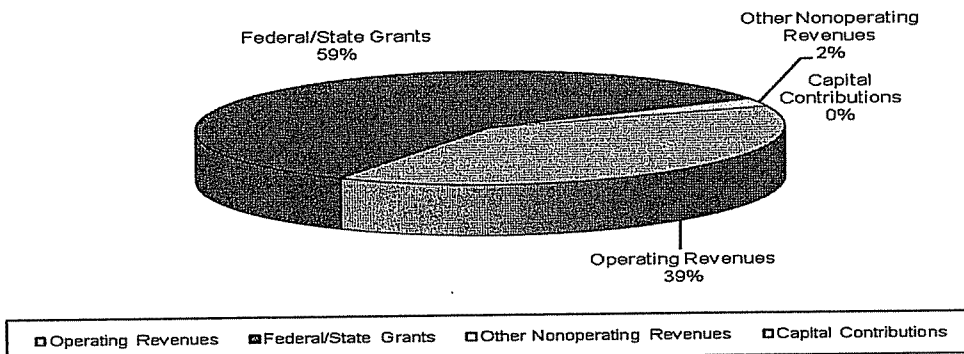
During fiscal year 2009, PRTC's activities resulted in a decrease in net assets of \$7,609,954. The key elements of the changes in net assets are shown in the following table.

	2009	2008	Percent Increase (Decrease)
REVENUES:			
Operating revenues	\$ 27,988,139	\$ 30,149,901	(7)%
Federal and state grants	42,107,909	41,895,970	1%
Other nonoperating revenues	1,503,162	2,619,534	(43)%
Capital contributions	40,970	46,245	(11)%
Total revenues	71,640,180	74,711,650	(4)%
EXPENSES:			
Operating expenses	49,742,972	40,400,972	23%
Pass-through grants	29,345,031	29,089,655	1%
Other nonoperating expenses	162,131	171,741	(6)%
Total expenses	79,250,134	69,662,368	14%
Change in net assets	(7,609,954)	5,049,282	(251)%
Net Assets, beginning	78,777,246	73,727,964	7%
Net Assets, ending	\$ 71,167,292	\$ 78,777,246	(10)%

The decrease in operating revenues of approximately \$2.2 million from fiscal year 2008 is due primarily to a decrease of approximately \$3.8 million in the 2% motor fuels tax revenue as a result of lower fuel prices, a reduction of \$0.7 million in jurisdictional general fund support, and an increase of approximately \$2.3 million in bus farebox revenues from higher ridership and a mid-year fare increase. The decrease in other nonoperating revenues of approximately \$1.1 million from fiscal year 2008 is primarily due to a decrease in investment income as a result of lower interest rates.

The following chart shows revenues by source for the fiscal year ended June 30, 2009.

FY09 Revenues



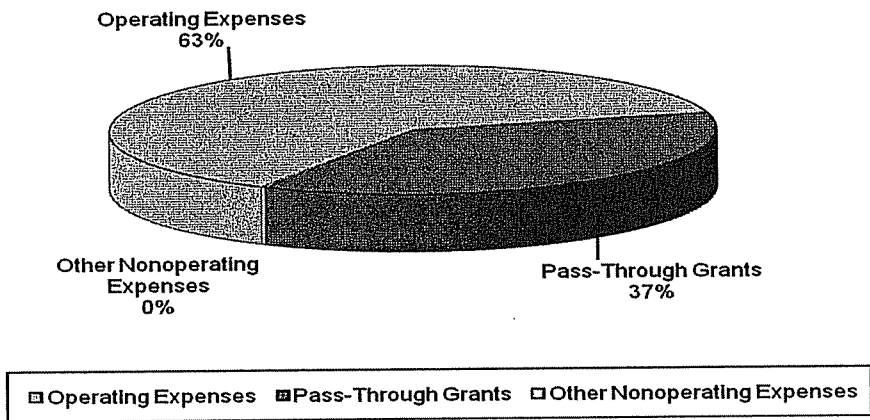
Total operating expenses increased by approximately \$9.3 million, principally due to direct transportation; contractual services; materials, supplies, and minor equipment; and depreciation and amortization.

Direct transportation expenses represent the use of jurisdictional 2% motor fuels tax funds for the Virginia Railway Express (VRE) subsidy as well as other jurisdictional transportation projects independent of PRTC. Direct transportation increased by approximately \$6.2 million from fiscal year 2008. The two principal “drivers” of this increase are a \$3.1 million increase in the PRTC jurisdictional VRE subsidy and a \$3.1 million increase in other jurisdictional transportation projects that member jurisdictions pursued, independent of PRTC, employing 2% motor fuels tax resources.

Contractual services increased by approximately \$1.3 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 2% increase in revenue hours. In addition, contractor incentives increased due to additional incentive earned by First Transit, related to farebox revenue. Farebox revenue for fiscal year 2009 exceeded budgeted revenue resulting in an additional incentive paid to First Transit. Materials, supplies, and minor equipment increased by approximately \$0.80 million primarily because of the significant increase in diesel fuel prices. The average price per gallon of diesel fuel for PRTC increased from \$2.57 in fiscal year 2008 to \$3.50 in fiscal year 2009. Depreciation and amortization increased by approximately \$0.63 million, a reflection of additional assets placed in service.

The following chart shows expenses for the fiscal year ended June 30, 2009.

FY09 Expenses



During fiscal year 2008, PRTC's activities resulted in an increase in net assets of \$5,049,282. The key elements of the changes in net assets are shown in the following table:

	2008	2007	Percent Increase (Decrease)
REVENUES:			
Operating revenues	\$ 30,149,901	\$ 27,442,765	10%
Federal and state grants	41,895,970	28,572,039	47%
Other nonoperating revenues	2,619,534	3,575,311	(27)%
Capital contributions	46,245	1,135,294	(96)%
Total revenues	74,711,650	60,725,409	23%
EXPENSES:			
Operating expenses	40,400,972	37,988,141	6%
Pass-through grants	29,089,655	21,607,056	35%
Other nonoperating expenses	171,741	199,923	(14)%
Total expenses	69,662,368	59,795,120	16%
Change in net assets	5,049,282	930,289	443%
Net Assets, beginning	73,727,964	72,797,675	1%
Net Assets, ending	\$ 78,777,246	\$ 73,727,964	7%

The increase in operating revenues of approximately \$2.7 million from fiscal year 2007 is due primarily to an increase of 14% in the 2% motor fuels tax revenue as a result of higher fuel prices. The increase in federal and state grants of approximately \$13.3 million is approximately \$6 million for PRTC, primarily the result of 11 OmniRide buses delivered during fiscal year 2008, and \$7 million for VRE pass-through, mainly the result of reimbursables for a parking garage construction project. Capital contributions decreased substantially because contributions were recorded in fiscal year 2007 for the electronic fareboxes that PRTC installed on its bus fleet in mid-June 2007.

In March 2008, PRTC changed its farebox revenue recognition method when it began accepting SmarTrip farecards on its buses. Prior to that time, cash fares and tokens were accepted as fare payment, and farebox revenue was recognized when tokens were sold, not used. Cash fares and SmarTrip farecards are now accepted as fare payment, and farebox revenue is recognized as trips are taken, not when value is added to SmarTrip cards.

Total operating expenses increased by approximately \$2.4 million, principally due to contractual services and materials, supplies, and minor equipment. Contractual services increased primarily as a result of PRTC's bus operating / maintenance service contract with First Transit, in which the contract cost increased due to inflation and increased service hours. Materials, supplies, and minor equipment increased primarily because of the significant increase in diesel fuel prices. The average price per gallon of diesel fuel for PRTC increased from \$2.04 in fiscal year 2007 to \$2.57 in fiscal year 2008. Pass-through grants increased by approximately \$7.5 million as the result of additional federal and state funds received for VRE projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PRTC's investment in capital assets as of June 30, 2009, amounts to \$38,253,305 (net of accumulated depreciation). This investment in capital assets includes buses and related equipment, vehicles, construction in progress, furniture and equipment, bus shelters, building, building improvements, and site improvements.

Major capital asset additions during the current fiscal year included the following:

- Delivery of eight OmniRide buses (four of them leased) at a cost of \$3,618,593
- Rehab of eight OmniRide buses at a cost of \$1,108,041
- Movement of \$1,428,391 from construction in progress to other capital asset categories, including the completion of the bus storage yard expansion and the dispatch office reconfiguration

The following table summarizes capital assets net of depreciation as of June 30:

	2009	2008	2007
Buses and related equipment	\$ 27,961,889	\$ 27,136,953	\$ 25,575,167
Vehicles	64,277	-	6,680
Construction in progress	1,921,186	2,838,843	691,849
Furniture and equipment	383,130	483,672	311,512
Bus shelters	245,596	278,472	57,765
Buildings	4,967,364	5,235,775	5,504,187
Building improvements	2,581,912	825,916	355,522
Site improvements	127,951	130,865	117,251
Total	\$ 38,253,305	\$ 36,930,496	\$ 32,619,933

Additional information on PRTC's capital assets is shown in Note 7.

Long-Term Debt

At the end of the fiscal year, PRTC had total revenue bonds payable outstanding of \$1,635,000. These bonds are secured by Prince William County's portion of the 2% motor fuels tax revenue, basic rent payments made by Prince William County under the lease of transportation facilities, and certain funds established under the Indenture.

At the end of the fiscal year, PRTC had total capital lease payable of \$1,462,735, which is collateralized by four buses.

Additional information on PRTC's long-term debt is shown in Note 8.

REQUEST FOR INFORMATION

This financial report is designed to provide our member jurisdictions, customers, and investors and creditors with a general overview of PRTC's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Director of Finance and Administration at the Potomac and Rappahannock Transportation Commission, 14700 Potomac Mills Road, Woodbridge, VA 22192, telephone (703) 583-7782. The web address for PRTC is www.prtctransit.org.

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and investments in bank	\$ 6,913,282	\$ 6,298,829
Cash and investments in pooled funds	951,348	937,650
Cash and investments in pooled funds - member jurisdictions	23,626,783	29,483,906
Receivables:		
Due from other governments	17,672,992	13,228,465
Miscellaneous	2,844	7,343
Prepaid expenses and other assets	122,477	41,866
Restricted assets:		
Tax free money market	919,540	1,162,323
Investments held by trustee	1,214,572	1,190,550
	<hr/>	<hr/>
Total current assets	51,423,838	52,350,932
Noncurrent Assets		
Other assets:		
Unamortized bond issuance costs, net	15,197	24,315
Net investment in direct financing lease	1,294,262	1,899,834
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Total other assets	1,309,459	1,924,149
Capital assets:		
Transportation equipment:		
Buses and related equipment	51,067,499	46,168,700
Less: accumulated depreciation	(23,105,610)	(19,031,747)
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Transportation equipment, net	27,961,889	27,136,953
Building and equipment:		
Construction in progress	1,921,186	2,838,843
Vehicles	109,512	98,483
Furniture and equipment	915,338	914,195
Bus shelters	506,285	464,705
Building improvements	2,918,207	1,004,922
Buildings	8,052,341	8,052,341
Site improvements	146,041	141,461
Less: accumulated depreciation	(4,277,494)	(3,721,407)
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Building and equipment, net	10,291,416	9,793,543
	<hr/>	<hr/>
Total capital assets, net	38,253,305	36,930,496
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Total noncurrent assets	39,562,764	38,854,645
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Total assets	\$ 90,986,602	\$ 91,205,577

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2009	2008
Current Liabilities		
Accounts payable and other liabilities	\$ 3,997,854	\$ 3,245,367
Accrued payroll and benefits	802,320	654,111
Due to other governments	9,575,525	4,562,083
Retainage payable	-	57,673
Deferred revenue	198,109	88,056
Capital lease	889,867	-
Interest payable - capital lease	1,964	-
Liabilities payable from restricted assets:		
Interim notes payable	2,177,384	1,475,058
Bond interest payable	24,937	36,412
Revenue bonds payable - current portion	800,000	765,000
Total current liabilities	18,467,960	10,883,760
Noncurrent Liabilities		
Revenue bonds payable - net of unamortized discount	778,482	1,544,571
Capital lease	572,868	-
Total noncurrent liabilities	1,351,350	1,544,571
Total liabilities	19,819,310	12,428,331
Net Assets		
Invested in capital assets, net of related debt	34,344,162	35,070,016
Restricted	27,044,409	36,134,565
Unrestricted	9,778,721	7,572,665
Total net assets	71,167,292	78,777,246
Total liabilities and net assets	\$ 90,986,602	\$ 91,205,577

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POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues:		
2% Motor fuels tax revenues	\$ 18,597,606	\$ 22,428,708
Farebox revenues	8,731,717	6,434,057
Advertising revenue	658,816	587,136
From member jurisdictions	-	700,000
Total operating revenues	27,988,139	30,149,901
Operating Expenses:		
Direct transportation	19,129,578	12,896,722
Salaries and related benefits	3,980,331	3,712,519
Contractual services	16,838,555	15,515,258
Other services	915,497	828,144
Materials, supplies and minor equipment	4,120,871	3,322,886
Depreciation and amortization	4,758,140	4,125,443
Total operating expenses	49,742,972	40,400,972
Operating loss	(21,754,833)	(10,251,071)
Nonoperating Revenues (Expenses):		
Federal and state grants	42,107,909	41,895,970
Pass-through grants - VRE	(29,344,146)	(29,087,911)
Pass-through grants - member jurisdictions	(885)	(1,744)
Reimbursement from member jurisdiction	470,011	153,176
Investment income	542,474	1,612,811
Direct financing lease interest income	109,235	141,942
Interest expense	(162,131)	(167,432)
Other revenue	377,542	711,605
Gain (loss) on disposal of capital assets	3,900	(4,309)
Total nonoperating revenues, net	14,103,909	15,254,108
Income (loss) before contributions	(7,650,924)	5,003,037
Capital Contributions	40,970	46,245
Change in net assets	(7,609,954)	5,049,282
Net Assets, beginning	78,777,246	73,727,964
Net Assets, ending	\$ 71,167,292	\$ 78,777,246

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Receipts from 2% motor fuels tax	\$ 20,892,092	\$ 21,167,622
Receipts from customers	8,672,943	6,274,840
Receipt from member jurisdiction	-	700,000
Receipts from advertising	658,816	587,136
Payments to suppliers	(21,091,924)	(19,691,234)
Payments to member jurisdictions	(17,690,996)	(13,298,891)
Payments to employees	(3,832,122)	(3,605,839)
Net cash used in operating activities	(12,391,191)	(7,866,366)
Cash Flows from Capital and Related Financing Activities:		
Interest payments on revenue bonds	(169,448)	(174,176)
Interest payments on capital leases	(23,373)	-
Principal payments on revenue bonds	(765,000)	(735,000)
Principal payments on capital leases	(325,628)	-
Proceeds from sale of assets	9,076	15,938
Receipts from direct financing lease	874,235	876,942
Purchase of buses and related equipment	(2,097,440)	(5,083,110)
Payments for building and site improvements, construction in progress, bus shelters, furniture and equipment	(1,160,136)	(1,443,829)
Net cash used in capital and related financing activities	(3,657,714)	(6,543,235)
Cash Flows from Noncapital Financing Activities:		
Federal and state grants	35,345,369	41,926,551
Payments for VRE grant - related expenditures	(25,769,286)	(30,723,581)
Payments for jurisdiction grant - related expenditures	(885)	(1,744)
Net cash provided by noncapital financing activities	9,575,198	11,201,226
Cash Flows From Investing Activities:		
Investment income	542,474	1,612,811
Sales and maturities of investments	874,235	876,943
Purchase of investments	(655,474)	(2,094,391)
Other revenues	483,500	724,866
Net cash provided by investing activities	1,244,735	1,120,229
Net decrease in cash and cash equivalents	(5,228,972)	(2,088,146)
Cash and Cash Equivalents		
Beginning	36,720,385	38,808,531
Ending	\$ 31,491,413	\$ 36,720,385

See Notes to Financial Statements.

	2009	2008
Reconciliation of Operating Loss to Net Cash Used in		
Operating Activities:		
Operating loss	\$ (21,754,833)	\$ (10,251,071)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	4,758,140	4,125,443
Changes in assets and liabilities:		
(Increase) decrease in:		
Due from other governments	1,602,159	(1,460,179)
Miscellaneous receivables	596,319	(48,182)
Prepaid expenses and other assets	(80,611)	(18,970)
Increase (decrease) in:		
Accounts payable and other liabilities	863,609	(5,975)
Accrued payroll and benefits	148,209	106,681
Due to other governments	1,438,582	(402,169)
Deferred revenue	37,235	88,056
Net cash used in operating activities	\$ (12,391,191)	\$ (7,866,366)
Schedule of Noncash Capital Activities:		
Capital assets acquired through capital contributions	\$ 40,970	\$ 46,245
Capital assets acquired through accounts payable	258,017	369,140
Capital assets acquired through interim note financing	702,326	1,475,058
Capital assets acquired through capital lease	1,788,363	-

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POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

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

The Commission has 15 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
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/> 15	<hr/> <hr/> 7

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

Note 1. Organization (Continued)

Revenues of PRTC consist principally of a 2% motor fuel tax and federal and state grants. The fuel tax revenues represent a sales tax on retail sales of motor vehicle fuels levied by the Commonwealth of Virginia through its Department of Taxation. 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 operating or originating within 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% 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 Virginia Railway Express ("VRE") is jointly operated and controlled by PRTC and the Northern Virginia Transportation Commission ("NVTC") (see Note 10). Neither PRTC nor NVTC appoints a voting majority of the Operations Board of VRE. PRTC has no equity investment in VRE. VRE is fiscally dependent on PRTC, NVTC, its member jurisdictions, and grants from the Commonwealth of Virginia and the federal government, and, therefore, is not included as a component unit of PRTC.

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% motor fuel tax revenues, one combined enterprise 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

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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.

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 and 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 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 and equipment	5 - 15 years
Site improvements	5 - 20 years

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Net investment in direct financing lease: Net investment in direct financing lease is recorded at the gross minimum lease payments receivable less unearned income representing interest on the transaction and deferred contributions. Unearned income is recognized over the term of the lease in amounts equal to interest on the related outstanding bonds.

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 accrued payroll and benefits in the accompanying financial statements as a current liability.

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.

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% motor fuel tax revenues, farebox revenues, advertising revenue, and contributions from member jurisdictions. Nonoperating revenues include federal and state grants, investment income, and reimbursement from member jurisdictions.

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments

Deposits: All cash of PRTC is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

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).

The Commission has investments in the LGIP, Dreyfus Cash Management Fund (DCMF), Ridgeworth Institutional U. S. Government Fund (RI), and Ridgeworth Virginia Tax Free Institutional Fund (RV). The LGIP, DCMF, RI, and RV 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, RI, and RV have been assigned an “AAAm” rating by Standard & Poor’s. The maturity of the LGIP, DCMF, RI, and RV 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, 2009, the carrying values and maturity of PRTC’s investments were as follows:

Investment Type	Fair Value	Maturities Less Than One Year
LGIP	\$ 24,578,131	\$ 24,578,131
Money market funds	10,305,112	10,305,112
Total investments	\$ 34,883,243	\$ 34,883,243

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.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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

Authorized Investments

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

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

	2009	2008
Stafford County	\$ 2,923,386	\$ 3,351,942
Prince William County	11,201,825	15,623,838
City of Manassas	1,994,461	2,508,577
City of Manassas Park	2,440,210	2,497,348
City of Fredericksburg	5,066,901	5,502,201
	<u>\$ 23,626,783</u>	<u>\$ 29,483,906</u>

Note 4. Restricted Assets

Restricted assets held by the Trustee represent the portion of resources held by the Trustee on behalf of PRTC in accordance with the applicable bond covenants. These assets include cash and investments. The accounts established under the indenture of trust have the following restricted assets held by the Trustee at June 30, 2009 and 2008:

	2009	2008
Bond fund	\$ 416,484	\$ 406,745
Debt service reserve fund	798,088	783,805
Total restricted assets held by trustee	<u>\$ 1,214,572</u>	<u>\$ 1,190,550</u>

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, 2009, the balance in this tax free fund was \$919,540.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Due To/From Other Governments

Amounts due from other governments are as follows:

	2009	2008
Virginia Department of Taxation -		
2% motor fuel tax receipts	\$ 2,909,504	\$ 5,136,271
Virginia Department of Rail and Public Transportation	2,337,189	1,844,232
VRE direct reimbursement	1,119,232	1,037,044
Federal Transit Administration:		
Grant proceeds	4,638,959	2,401,824
VRE grant expenditures	6,053,221	2,022,093
Washington Metropolitan Area Transit Authority	612,056	593,737
Prince William County	1,320	67,335
Department of Homeland Security	-	58,210
Northern Virginia Transportation Commission	-	67,719
City of Manassas	1,511	-
	<u>\$ 17,672,992</u>	<u>\$ 13,228,465</u>

Amounts due to other governments are as follows:

	2009	2008
Virginia Railway Express	\$ 7,353,233	\$ 3,778,373
City of Manassas	1,031,656	-
City of Manassas Park	885	-
City of Fredericksburg	1,160,448	754,407
Northern Virginia Transportation Commission	29,303	29,303
	<u>\$ 9,575,525</u>	<u>\$ 4,562,083</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 6. Net Investment in Direct Financing Lease

PRTC has entered into a lease agreement with Prince William County (the "County") for transportation facilities constructed with the proceeds from the transportation facilities lease revenue bonds (see Note 8). In accordance with this agreement, PRTC has made available to the County \$5,500,000 of the \$9,405,000 bond proceeds. The lease agreement indicates the County is responsible for acquiring land, constructing, and maintaining two railway stations – Broad Run and Rippon – located within the County. Rentals under the lease are equal to the bond debt service and related fees and expenses. The lease term is equivalent to the life of the bonds, and ownership of the constructed facilities reverts to the County at the end of the lease term. Accordingly, the future net rentals have been capitalized as a direct financing lease receivable as follows:

Year Ending June 30,	Amount
2010	\$ 874,810
2011	<u>873,410</u>
Net minimum rentals	1,748,220
Less: Unearned income	(113,220)
Deferred contributions	<u>(340,738)</u>
Net investment in lease	<u>\$ 1,294,262</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Changes in capital assets for the year ended June 30, 2009 are as follows:

	Balance June 30, 2008	Increases	Reclassifications/ Decreases	Balance June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ 2,838,843	\$ 510,734	\$ (1,428,391)	\$ 1,921,186
Capital assets being depreciated:				
Buses and related equipment	46,168,700	4,898,799	-	51,067,499
Vehicles	98,483	67,660	(56,631)	109,512
Furniture and equipment	914,195	32,976	(31,833)	915,338
Bus shelters	464,705	13,575	28,005	506,285
Building improvements	1,004,922	518,928	1,394,357	2,918,207
Buildings	8,052,341	-	-	8,052,341
Site improvements	141,461	4,580	-	146,041
Total capital assets being depreciated	56,844,807	5,536,518	1,333,898	63,715,223
Less accumulated depreciation for:				
Buses and related equipment	19,031,747	4,073,863	-	23,105,610
Vehicles	98,483	3,383	(56,631)	45,235
Furniture and equipment	430,523	133,516	(31,833)	532,208
Bus shelters	186,233	74,456	-	260,689
Building improvements	179,006	158,144	(853)	336,295
Buildings	2,816,566	268,411	-	3,084,977
Site improvements	10,596	7,494	-	18,090
Total accumulated depreciation	22,753,154	4,719,267	(89,317)	27,383,104
Total capital assets being depreciated, net	34,091,653	817,251	1,423,215	36,332,119
Totals	\$ 36,930,496	\$ 1,327,985	\$ (5,176)	\$ 38,253,305

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2008 are as follows:

	Balance June 30, 2007	Increases	Reclassifications/ Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Construction in progress	\$ 691,849	\$ 2,548,435	\$ (401,441)	\$ 2,838,843
Capital assets being depreciated:				
Buses and related equipment	42,039,864	5,157,066	(1,028,230)	46,168,700
Vehicles	98,483	-	-	98,483
Furniture and equipment	700,890	194,236	19,069	914,195
Bus shelters	217,729	179,714	67,262	464,705
Building improvements	479,118	317,244	208,560	1,004,922
Buildings	8,052,341	-	-	8,052,341
Site improvements	120,774	20,687	-	141,461
Total capital assets being depreciated	51,709,199	5,868,947	(733,339)	56,844,807
Less accumulated depreciation for:				
Buses and related equipment	16,464,697	3,593,585	(1,026,535)	19,031,747
Vehicles	91,803	6,680	-	98,483
Furniture and equipment	389,378	111,401	(70,256)	430,523
Bus shelters	159,964	41,163	(14,894)	186,233
Building improvements	123,596	58,258	(2,848)	179,006
Buildings	2,548,154	268,412	-	2,816,566
Site improvements	3,523	7,073	-	10,596
Total accumulated depreciation	19,781,115	4,086,572	(1,114,533)	22,753,154
Total capital assets being depreciated, net	31,928,084	1,782,375	381,194	34,091,653
Totals	\$ 32,619,933	\$ 4,330,810	\$ (20,247)	\$ 36,930,496

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. 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, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1997 facility lease revenue refunding bond, \$7,445,000, 4.0%-4.6%	\$ 2,400,000	\$ -	\$ (765,000)	\$ 1,635,000	\$ 800,000
1997 bond discount	(90,429)	-	33,911	(56,518)	-
Total long-term liabilities	\$ 2,309,571	\$ -	\$ (731,089)	\$ 1,578,482	\$ 800,000

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
1997 facility lease revenue refunding bond, \$7,445,000, 4.0%-4.6%	\$ 3,135,000	\$ -	\$ (735,000)	\$ 2,400,000	\$ 765,000
1997 bond discount	(124,340)	-	33,911	(90,429)	-
Total long-term liabilities	\$ 3,010,660	\$ -	\$ (701,089)	\$ 2,309,571	\$ 765,000

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Liabilities (Continued)

Debt Service Requirements

The 1997 bonds mature annually beginning in 2001 in increasing amounts through 2011, with \$835,000 due March 1, 2011. The 1997 bonds bear interest at rates from 4.0% to 4.6% with interest payable semi-annually on March 1 and September 1. Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 800,000	\$ 74,810	\$ 874,810
2011	835,000	38,410	873,410
	<u>\$ 1,635,000</u>	<u>\$ 113,220</u>	<u>\$ 1,748,220</u>

Pledged Funds

The payment of principal and interest on the 1997 bonds is secured by a pledge of (1) Prince William County's portion of 2% motor fuel tax revenues, (2) basic rent payments made by Prince William County under the lease of the transportation facilities (see Note 6), and (3) certain funds established under the Indenture.

Accounts Established in Accordance with the Indentures

The following funds are established under the 1991 Indentures and carried over to the 1997 Indenture:

- (1) Project Fund, with a Capitalized Interest Account, a Commuter Stations Account, and an Optional Facilities Account
- (2) Bond Fund
- (3) Debt Service Reserve Fund
- (4) Cost of Issuance Fund

All revenues and all money in the Project Fund, the Bond Fund, the Cost of Issuance Fund, and the Debt Service Reserve Fund are trust funds and are pledged to the payment of principal and interest on the bonds.

The Indenture requires PRTC to make monthly deposits from Prince William County's portion of 2% motor fuel tax revenues to the Bond Fund so that it will contain the amount required for the next succeeding principal and/or interest payment on the bonds 60 days before the payment date. To the extent Prince William County's portion of 2% motor fuel tax revenues is not sufficient to meet the scheduled debt service payment, Prince William County will make lease payments to PRTC.

The following funds are established under the 1997 Indenture:

- (1) Cost of Issuance Fund
- (2) Escrow Account

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Liabilities (Continued)

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 \$1,914,739 and \$1,464,277 for the tax-exempt note and \$262,645 and \$10,781 for the taxable note at June 30, 2009 and 2008, respectively. The effective interest rates were .0839% and 1.02%, respectively, at June 30, 2009.

Capital Lease – Commuter Coaches

\$884,305 capitalized lease obligation, \$38,302 due monthly with interest at 3.75%, maturing in 2011, collateralized with commuter coaches with a carrying value of \$860,684	<u>\$ 741,481</u>
\$904,058 capitalized lease obligation, \$39,158 due monthly with interest at 3.75%, maturing in 2011, collateralized with commuter coaches with a carrying value of \$867,318	<u>\$ 721,254</u>

Future minimum lease payments as of June 30, 2009 are as follows:

Years Ended June 30,	Principal	Interest	Total
2010	\$ 889,867	\$ 39,662	\$ 929,529
2011	<u>572,868</u>	<u>7,659</u>	<u>580,527</u>
	<u>\$ 1,462,735</u>	<u>\$ 47,321</u>	<u>\$ 1,510,056</u>

Note 9. 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Member jurisdictions	\$ 24,878,489	\$ 34,006,365
Debt service	<u>2,165,920</u>	<u>2,128,200</u>
Total restricted net assets	<u>\$ 27,044,409</u>	<u>\$ 36,134,565</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Assets (Continued)

Unrestricted net assets consist of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Designations of unrestricted net assets:		
Carryforward to support next year budget	\$ 78,432	\$ 2,453,017
Local match for grants	3,133,125	3,546,462
Total designations	3,211,557	5,999,479
Undesignated unrestricted net assets	<u>6,567,164</u>	<u>1,573,186</u>
Total unrestricted net assets	<u>\$ 9,778,721</u>	<u>\$ 7,572,665</u>

Note 10. Virginia Railway Express

PRTC and the NVTC entered into a Master Agreement dated October 27, 1989, establishing the VRE. VRE provides commuter rail service originating in Manassas, Virginia, and Fredericksburg, Virginia, to Union Station in the District of Columbia, using existing rail tracks.

VRE is managed by the Commissions with certain functions delegated to the VRE Operations Board which consists of representatives of all contributing and participating jurisdictions and one ex-officio representative of the Virginia Department of Rail and Public Transportation. The Operations Board is responsible for the financial management of VRE. NVTC serves as the repository of all monies. Operational and capital costs of the rail service are financed by bond issues, Federal and State grants, local jurisdiction assistance, and passenger revenue. Assistance to be provided by the local jurisdictions is based on a population and ridership formula for participating jurisdictions and a predetermined contribution amount from contributing jurisdictions. Participating jurisdictions include the counties of Fairfax, Prince William and Stafford and the cities of Manassas, Manassas Park, and Fredericksburg. Contributing jurisdictions include Arlington County and the City of Alexandria.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Virginia Railway Express (Continued)

In July 2007, PRTC and NVTC 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 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.

For the years ended June 30, 2009 and 2008, PRTC paid \$11,475,089 and \$8,399,975, respectively, for VRE support on behalf of its member jurisdictions.

Note 11. Revenue from Member Jurisdictions

Effective May 13, 1991, Prince William County transferred operating responsibility of its OmniRide (Commuter) 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, state grants, 2% motor fuel tax, and other jurisdictional payments.

During the years ended June 30, 2009 and 2008, PRTC recognized \$-0- and \$700,000, respectively, as revenue from Prince William County in addition to the 2% motor fuel tax.

Note 12. Direct Transportation Expenses

In addition to PRTC administrative costs, the member jurisdictions authorize disbursements from their respective 2% motor fuel tax revenues for transportation projects operating or originating within their jurisdiction. During the years ended June 30, 2009 and 2008, amounts expended for joint and jurisdictional transportation projects consisted of:

	2009	2008
VRE support	\$ 11,475,089	\$ 8,399,975
Other jurisdictional projects and fees	6,133,833	2,972,253
Deposits to 1997 bond funds	874,235	876,942
Refunded IDA bonds/lease participation certificates debt service	646,421	647,552
	<u>\$ 19,129,578</u>	<u>\$ 12,896,722</u>

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 13. Pass-Through Grants – VRE

PRTC receives Federal and State financial assistance on behalf of the VRE. VRE submits reimbursement requests to PRTC which then submits them to the granting agency. Upon receipt of the funds, they are passed on to VRE. For the years ended June 30, 2009 and 2008, grant revenue in the accompanying financial statements includes \$29,344,146 and \$29,087,911, respectively, in Federal, State, and local assistance received by PRTC that was passed on to VRE.

Note 14. Risk Management

PRTC 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 15. Related Parties

For the years ended June 30, 2009 and 2008, expenses incurred for legal services provided by Prince William County were \$39,000.

Note 16. 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 years ended June 30, 2009 and 2008 were \$16,850 and \$15,841, respectively.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the years ended June 30, 2009 and 2008 were \$36,112 and \$34,682, respectively.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 17. 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)

PRTC contributes to the Virginia Retirement System (“VRS”), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.70% of their average final compensation (“AFC”) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (“COLA”) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. 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 that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/publications/2008annurept.pdf> or obtained by writing the System’s Chief Financial Officer, P. O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by PRTC for its employees. 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. The PRTC contribution rate for the fiscal year ended June 30, 2009, was 11.49% of annual covered payroll.

PRTC’s payroll for employees covered by the VRS for the years ended June 30, 2009, 2008, and 2007 was as follows:

	2009	2008	2007
PRTC employees	\$ 2,666,461	\$ 2,542,499	\$ 2,422,409
VRE employees	2,967,956	2,769,945	2,541,703

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 17. Defined Benefit Pension Plan (Continued)

B. Funding Policy (Continued)

Total payroll for the years ended June 30, 2009, 2008, and 2007 was as follows:

	2009	2008	2007
PRTC employees	\$ 2,986,896	\$ 2,787,243	\$ 2,695,803
VRE employees	3,024,203	2,822,631	2,598,705

C. Annual Pension Cost (APC)

For fiscal year 2009, PRTC and VRE's annual pension cost of \$647,394 was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 include (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the assets is equal to the modified market value of assets. 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, 2007 was 20 years.

Three-year trend information for PRTC and VRE is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	\$ 647,394	100%	\$ -
June 30, 2008	559,932	100%	-
June 30, 2007	523,217	100%	-

D. Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 96.88% funded. The actuarial accrued liability for benefits was \$6,065,059 and the actuarial value of assets was \$5,875,612, resulting in an unfunded actuarial accrued liability (UAAL) of \$189,447. The covered payroll (annual payroll of active employees covered by the plan) was \$5,369,542 and ratio of the UAAL to the covered payroll was 3.5%.

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 for benefits.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 18. Contingencies and Contractual Commitments

As of June 30, 2009, PRTC has entered into contracts at various times in January through March 2009 to purchase fuel at set prices for delivery in July 2009 through June 2010. The total commitment is for 630,000 gallons of fuel at approximately \$1.2 million. The fuel will be used in the normal course of business and is not being purchased for resale.

Note 19. Pending GASB Statements

At June 30, 2009, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by PRTC. The statements which might impact PRTC are as follows:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, established standards of accounting and financial reporting for intangible assets. Statement No. 51 will be effective for periods beginning after June 15, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Statement No. 53 will be effective for periods beginning after June 15, 2009.

Note 20. Reclassifications

Certain accounts in the prior year financial statements were reclassified to conform with the current year presentation. These reclassifications had no effect on net assets or change in net assets.

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, 2008	\$ 5,875,612	\$ 6,065,059	\$ 189,447	96.88%	\$ 5,369,542	3.53%
June 30, 2007	4,861,087	4,962,766	101,679	97.95%	5,189,808	1.96%
June 30, 2006	3,904,965	4,113,551	208,586	94.93%	4,766,179	4.38%

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

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SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS

Year Ended June 30, 2009

	City of		City of		City of		County of		Total
	Fredericksburg	Manassas	Manassas	Park	Prince William	Stafford	Stafford		
Funds Available - July 1, 2008	\$ 5,096,746	\$ 2,822,002	\$ 2,754,411	\$ 18,876,473	\$ 4,456,733	\$ 34,006,365			
Funds Received:									
2% motor fuels tax revenue	1,341,568	1,409,690	868,742	11,390,005	3,587,601	18,597,606			
Other	-	124,801	-	783,010	-	907,811			
Interest	88,353	35,107	39,554	211,661	54,261	428,936			
Total funds received	1,429,921	1,569,598	908,296	12,384,676	3,641,862	19,934,353			
Funds Disbursed:									
Direct transportation expenses:									
VRE capital support	482,764	938,897	567,082	6,511,839	2,974,507	11,475,089			
Other projects	1,945,980	1,919,838	400,000	251,091	1,616,924	6,133,833			
Deposits to 1997 bond fund	-	-	-	874,235	-	874,235			
Debt service for refunded IDA bonds	-	-	-	646,421	-	646,421			
Transfers to PRTC:									
Administrative expenses	-	16,400	9,200	127,100	-	152,700			
OmniRide, OmniLink, Capital Improvement, Marketing	-	193,173	133,740	9,453,038	-	9,779,951			
Total funds disbursed	2,428,744	3,068,308	1,110,022	17,863,724	4,591,431	29,062,229			
Funds Available - June 30, 2009	\$ 4,097,923	\$ 1,323,292	\$ 2,552,685	\$ 13,397,425	\$ 3,507,164	\$ 24,878,489			

Notes:

(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, 2009. Total funds available reconcile to amounts reported on the statement of net assets as follows:

Cash and investments in pooled funds - member jurisdictions	\$ 23,626,783
Due from other governments - 2% motor fuels tax revenue receipts	2,909,504
Due from other governments - DRPT	534,306
Due to other governments - member jurisdictions	<u>(2,192,104)</u>
	<u>\$ 24,878,489</u>

(2) Expenses for other jurisdictional projects consist of:

Road improvements, traffic signals, sidewalks	\$ 532,509	\$ 1,382,005	\$ 400,000	\$ -	\$ 868,727	\$ 3,183,241
Station maintenance	58,246	-	-	-	-	58,246
Gainesville/Haymarket rail study match	-	-	-	251,091	-	251,091
Street signs, human services transportation, bike trails, airport, professional services	-	-	-	-	389,955	389,955
Parking garage construction and debt service, commuter parking leases	321,777	537,833	-	-	-	859,610
FRED transit station	627,910	-	-	-	-	627,910
FRED transit costs	405,538	-	-	-	358,242	763,780
	<u>\$ 1,945,980</u>	<u>\$ 1,919,838</u>	<u>\$ 400,000</u>	<u>\$ 251,091</u>	<u>\$ 1,616,924</u>	<u>\$ 6,133,833</u>

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENSES OF STATE AWARDS

Year Ended June 30, 2009

	State Grant Number	Expenses
<u>Direct Payments:</u>		
Formula assistance	72008-36; 72009-36	\$ 3,987,981
Ridesharing assistance	71008-10; 71009-10; 72509-67	169,800
Transportation intern	71208-06; 71209-01	23,577
Demo SmarTrip POS	71004-39	83,220
TEIF Youth Outreach	71408-06	33,626
TMP Bus Service	72509-61	48,100
Inauguration	72009-67	55,647
Capital - FY06	73006-22; 72506-05	7,511
Capital - FY07	72507-23; 73007-26; 73007-29	365,662
Capital - FY08	73008-09; 73008-10; 72508-22; 73008-35	1,356,757
Capital - FY09	72509-35; 73009-63; 73009-64; 73009-66; 73009-72	573,157
	73009-73; 73009-75; 73009-76; 73109-19; 73109-47	
Capital - FY10	72510-20	15,005
		<u>6,720,043</u>
Passthrough to VRE:		
Capital - FY98	73098-02	111,795
Capital - FY05	73005-15	17,781
SmarTrip expansion program	73501-52	3,757
		<u>133,333</u>
		<u>\$ 6,853,376</u>

Total expenses of State awards

** Prepaid CPOS funds of \$72,818 are classified as deferred revenue in the Statement of Net Assets.

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENSES OF FEDERAL AWARDS

Year Ended June 30, 2009

Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number	Federal CFDA Number	Expenses
DEPARTMENT OF TRANSPORTATION:		
<u>Direct Payments:</u>		
Federal Transit Administration:		
VA-04-0012	20.500	\$ 557,022
VA-05-0041	20.500	1,144,634
VA-90-X284	20.507	19,315
VA-90-X307	20.507	36,913
VA-90-X329	20.507	15,723
VA-95-X012	20.507	126,804
VA-95-X046	20.507	265,360
VA-96-X009 ARRA	20.507	3,000,000
Pending Grant	20.507	895,304
		<u>6,061,075</u>
<u>Passthrough Payments</u>		
Virginia Department of Rail and Public Transportation:		
Northern Virginia Transportation Commission:		
Code Red Program	20.205	<u>30,737</u> *
Passthrough to City of Alexandria:		
VA-03-0103	20.500	<u>55,463</u>
Passthrough to VRE:		
VA-03-0074	20.500	56,638
VA-03-0078	20.500	22,042
VA-03-0079	20.500	1,581,558
VA-03-0091	20.500	1,000,000
VA-03-0094	20.500	40,231
VA-03-0097	20.500	120,871
VA-03-0098	20.500	1,000,000
VA-03-0102	20.500	63,255
VA-03-0105	20.500	971,779
VA-04-0015	20.500	51,470
VA-05-0038	20.500	1,709,200
VA-05-0041	20.500	3,433,294
VA-90-X106	20.500	1,315,230
VA-90-X207	20.507	278,076
VA-90-X232	20.507	15,028
VA-90-X240	20.507	8,194
VA-90-X251	20.507	1,107,114
VA-90-X271	20.507	225,691
VA-90-X284	20.507	4,180,434
VA-90-X307	20.507	287,167
VA-90-X329	20.507	2,074,281
VA-95-X017	20.507	7,347,668
VA-95-X046	20.507	1,153,098
VA-95-X057	20.507	1,168,494
		<u>29,210,813</u>
Total expenses of Federal awards		<u>\$ 35,358,088</u>

*Code Red funds are classified as farebox revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENSES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The accompanying Schedule of Expenses 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 Expenses 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 Expenses 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).

Note 2. Pass-Through Payments to VRE

PRTC receives federal financial assistance on behalf of the Virginia Railway Express (VRE). VRE submits reimbursement requests to PRTC which then submits them to the granting agency. Upon receipt of the funds, they are passed on to VRE.



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**INDEPENDENT AUDITORS' 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 (the Commission), as of and for the year ended June 30, 2009, and have issued our report thereon dated October 16, 2009. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliability in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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*.

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
October 16, 2009



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO 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 (the Commission), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, that are applicable to its major Federal program for the year ended June 30, 2009. The Commission's major Federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, specifications, 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 are applicable to its major Federal program for the year ended June 30, 2009.

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 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 control deficiency in the Commission's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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
October 16, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	_____ Yes	<input checked="" type="checkbox"/> No
Significant deficiency identified that is not considered to be material weaknesses	_____ Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted	_____ Yes	<input checked="" type="checkbox"/> No

Federal awards

Internal control over major programs:

Material weaknesses identified	_____ Yes	<input checked="" type="checkbox"/> No
Significant deficiency identified that is not considered to be material weaknesses	_____ Yes	<input checked="" type="checkbox"/> None Reported

Type of auditors' 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	<input checked="" type="checkbox"/> No
--------------------------------------------------------------------------------------------------------------------	-----------	----------------------------------------

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
-------------	------------------------------------

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: \$1,060,742

Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	_____ No
----------------------------------------	-----------------------------------------	----------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiency in Internal Control

None Reported

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

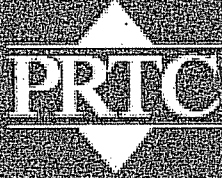
None

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2009

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.



The Ride That's Right For You