ITEM 11-A
December 6, 2018
PRTC Regular Meeting
Res. No. 18-12___

MOTION:

SECOND:

RE: **AUTHORIZATION TO ACCEPT FY18 AUDITED FINANCIAL STATEMENTS, REQUIRED COMMUNICATION TO THE COMMISSIONERS, AND PBMARES, LLP MANAGEMENT LETTER**

ACTION:

WHEREAS, the accounting firm of PBMares, LLP has completed the Potomac and Rappahannock Transportation Commission's FY18 audit; and

WHEREAS, PBMares determined that the financial statements present fairly, in all material respects, the Potomac and Rappahannock Transportation Commission's financial position as of June 30, 2018; and

WHEREAS, PBMares presented the required communication to the Commissioners about the audit, which is required under auditing standards generally accepted in the United States; and

WHEREAS, PBMares presented a management letter, addressing cyber security and noting new Governmental Accounting Standards Board (GASB) pronouncements which might impact the Commission.

NOW, THEREFORE, BE IT RESOLVED that the Potomac and Rappahannock Transportation Commission does hereby accept the FY18 audited financial statements, required communication to the Commissioners, and management letter as presented by PBMares, LLP.

Votes:
Ayes:
Nays:
Abstain:
Absent from Vote:
Alternate Present Not Voting:
Absent from Meeting:

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December 6, 2018

TO: Madam Chair Anderson and PRTC Commissioners

FROM: Joyce Embrey
Director of Finance and Administration

THROUGH: Robert A. Schneider, PhD
Executive Director

SUBJECT: Authorization to Accept FY18 Audited Financial Statements, Required Communication to the Commissioners, and PBMares, LLP Management Letter

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Recommendation:

Authorize acceptance of the FY18 audited financial statements, required communication to the Commissioners, and PBMares, LLP management letter.

Background:

The accounting firm of PBMares, LLP has completed the PRTC FY18 audit and determined that the financial statements (attached) present fairly, in all material respects, PRTC's financial position as of June 30, 2018. PBMares has presented the required communication to the Commissioners about the audit (attached), which is required under auditing standards generally accepted in the United States. PBMares also presented a management letter (attached), addressing cyber security and noting new Governmental Accounting Standards Board (GASB) pronouncements which might impact the Commission.

Fiscal Impact:

Not applicable.

Attachments: as stated

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

REPORT TO THE HONORABLE COMMISSION BOARD MEMBERS

DECEMBER 6, 2018

PBMares SM

ASSURANCE, TAX & ADVISORY SERVICES

December 6, 2018

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

We are pleased to present this report related to our audit of the financial statements and compliance of the Potomac and Rappahannock Transportation Commission (Commission) for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Commission's financial and compliance reporting process.

This report is intended solely for the information and use of Commission Board Members and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Commission.

PBMares, LLP

PBMares, LLP

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

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POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

REQUIRED COMMUNICATIONS
Year Ended June 30, 2018

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance)* require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit and compliance reporting process, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and compliance reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement and Compliance Audit	Our responsibility under auditing standards generally accepted in the United States of America; *Government Auditing Standards,* issued by the Comptroller General of the United States; the provisions of the Single Audit Act; Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance; and *Specifications for Audits of Authorities, Boards and Commissions* provided by the Auditor of Public Accounts of the Commonwealth of Virginia has been described to you in our arrangement letter dated July 10, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement and Compliance Audit	We have issued a separate communication dated July 10, 2018 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Commission. The Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. At June 30, 2018, GASB issued several statements not yet implemented by PRTC. The statements which might impact PRTC are included in the separately issued Management Letter.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

REQUIRED COMMUNICATIONS (Continued)
Year Ended June 30, 2018

Area	Comments
Accounting Policies and Practices (Continued)	**Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatement	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communications Between Management and Our Firm	Copies of significant communications between our firm and management of the Commission, including the representation letter provided to us by management, are attached as Exhibit A.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES
Year Ended June 30, 2018

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Commission's June 30, 2018 financial statements:

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Capital Assets	Estimated lives of amortizable and depreciable assets	Management assigns lives to assets purchased or constructed internally based on the expected useful life of those assets or the product associated with those assets.	Management's approach to depreciation and amortization is consistent with practices of similar organizations. While these estimates are based on historical information, management should continue to monitor the lives assigned to the Commission's assets to ensure the recovery period of these costs are accurate.
Pension Liability and Other Postemployment Benefits (OPEB)	Pension and OPEB (assets) liabilities and costs for financial accounting and disclosure purposes	Management recognizes pension and OPEB (assets) liabilities based on market trends and industry standards.	Management's approach to recognizing pension and OPEB (assets) liabilities appears reasonable with accepted practice. While these estimates are based on assumptions provided by market trends and industry standards, management should monitor these estimates and compare to actual costs over time.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)
Year Ended June 30, 2018

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Inventory Valuation	Valuation assigned to inventory	Management values inventory using the first-in, first-out method. Inventory is stated at cost, which approximates market value.	While some of the items valued in inventory are based on reasonable and accurate prices, management should monitor these items to ensure values assigned to inventory items are adjusted accordingly to reflect market value.
Receivables	Allowance for doubtful accounts	Management records an allowance for uncollectible accounts based on an analysis of historical write-offs and collections to arrive at an overall assessment of whether past due accounts will be collected.	Management's approach to estimating uncollectable accounts is reasonable and consistent with prior periods. While these estimates are based on sound financial information, management should monitor these estimates and compare the actual collections of these revenues to ensure the accuracy of these estimates.

Exhibit A – Significant Written Communications between Management and Our Firm

Arrangement Letter

PBMares SM

July 10, 2018

Potomac and Rappahannock Transportation Commission
14700 Potomac Mills Road
Woodbridge, Virginia 22192-2730

Attention: Robert Schneider, Executive Director

The Objective and Scope of the Audit of the Financial Statements

You have requested we audit Potomac and Rappahannock Transportation Commission's (Commission) two business-type activities and each major fund as of and for the year ended June 30, 2018, which collectively comprise the basic financial statements. Also, the required supplementary information (RSI) and supplementary information presented in relation to the financial statements taken as a whole will be subjected to the auditing procedures applied in our audit of the basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will also perform the audit of the Commission as of June 30, 2018 so as to satisfy the audit requirements imposed by the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); *Government Auditing Standards* issued by the Comptroller General of the United States (GAS); the provisions of the Single Audit Act; Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance; the U.S. Office of Management and Budget's (OMB) Compliance Supplement; and the *Specifications for Audits of Authorities, Boards, and Commissions*, provided by the Auditor of Public Accounts for the Commonwealth of Virginia. Those standards, regulations, supplement, and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, GAS does not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the Commission (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds you have told us are maintained by the Commission and that are to be included as part of our audit are listed here:

I. Bus Service and Member Jurisdictions

II. Commuter Rail Service

No component units are to be included in the Commission's basic financial statements.

The federal financial assistance programs and awards you have told us the Commission participates in and are to be included as part of the single audit are listed on Attachment A.

We are responsible for the compliance audit of the major programs under the Uniform Guidance, including the determination of major programs, the consideration of internal control over compliance, and reporting responsibilities.

Our reports on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of updating our understanding of internal control and performing tests of internal control consistent with requirements of the standards, regulations, supplement, and specifications identified above. Our reports on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards, regulations, supplement, and specifications identified above.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;

2. To evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees they will not evaluate subsequent events earlier than the date of the management representation letter referred to below;

3. For the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;

4. For establishing and maintaining effective internal control over financial reporting, and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;

5. For report distribution; and

6. To provide us with:

    a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information we may request from management for the purpose of the audit; and

    c. Unrestricted access to persons within the Commission from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, when appropriate, those charged with governance written confirmation concerning representations made to us in connection with the audit, including, among other items, that:

1. Management has fulfilled its responsibilities as set out in the terms of this letter; and

2. It believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring the Commission complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the Commission involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the Commission received in communications from employees, former employees, analysts, regulators, or others.

Management is responsible for the preparation of the RSI and supplementary information presented in relation to the financial statements as a whole in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the RSI and supplementary information in any document that contains the RSI and supplementary information and indicates that the auditor has reported on such RSI and supplementary information. Management also agrees to present the RSI and supplementary information with the audited financial statements or, if the RSI and supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the RSI and supplementary information no later than the date of issuance of the RSI and supplementary information and the auditor's report thereon.

Because the audit will be performed in accordance with the Single Audit Act and the Uniform Guidance, management is responsible for (a) identifying all federal awards received; (b) preparing the Schedule of Expenditures of Federal Awards (including notes and noncash assistance received) in accordance with Uniform Guidance requirements; (c) internal control over compliance; (d) compliance with federal statutes, regulations and the terms and conditions of federal awards; (e) making us aware of significant vendor relationships where the vendor is responsible for program compliance; (f) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan; and (g) submitting the reporting package and data collection form.

The Executive Committee is responsible for informing us of its views about the risks of fraud or abuse within the Commission, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the Commission.

Our association with an official statement is a matter for which separate arrangements will be necessary. The Commission agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Commission seeks such consent, we will be under no obligation to grant such consent or approval.

The Commission agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the Commission agrees to contact us before it includes our reports, or otherwise makes reference to us, in any public or private securities offering.

Records and Assistance

If circumstances arise relating to the condition of the Commission's records, the availability of appropriate audit evidence or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting or misappropriation of assets which, in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Commission's books and records. The Commission will determine all such data, if necessary, will be so reflected. Accordingly, the Commission will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Commission personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Joyce Embrey, Director of Finance and Administration. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including drafting the financial statements. The GAS independence standards require the auditor maintain independence so that opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the Commission, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is considerations of management's ability to effectively oversee the non-audit services to be performed. The Commission has agreed Joyce Embrey, Director of Finance and Administration, possesses suitable skill, knowledge and experience and she understands the services to be performed sufficiently to oversee them. Accordingly, the management of the Commission agrees to the following:

1. The Commission has designated Joyce Embrey, Director of Finance and Administration, as a senior member of management who possesses suitable skill, knowledge and experience to oversee the services;

2. Joyce Embrey, Director of Finance and Administration, will assume all management responsibilities for subject matter and scope of the non-audit services;

3. The Commission will evaluate the adequacy and results of the services performed; and

4. The Commission accepts responsibility for the results and ultimate use of the services.

GAS further requires we establish an understanding with the Commission's management and those charged with governance of the objectives of the non-audit services, the services to be performed, the Commission's acceptance of its responsibilities, the auditor's responsibilities and any limitations of the non-audit services. We believe this letter documents that understanding.

Other Relevant Information

PBMares, LLP may mention the Commission's name and provide a general description of the engagement in PBMares, LLP's client lists and marketing materials.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

In accordance with GAS, a copy of our most recent peer review report can be located on our website at www.pbmares.com.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are not expected to exceed $70,000. Our fee estimate and completion of our work are based upon the following criteria:

1. Anticipated cooperation from Commission personnel.

2. Timely responses to our inquiries.

3. Timely completion and delivery of client assistance requests.

4. Timely communication of all significant accounting and financial reporting matters.

5. The assumption unexpected circumstances will not be encountered during the engagement.

If any of the aforementioned criteria are not met, then fees may increase. Fees may also increase based on the extent of accounting services and other assistance required to render a complete set of financial statements. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Amounts not paid within thirty days from the invoice date(s) will be subject to a late payment charge of 1.5% per month (18% per year).

Our professional standards require we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Commission agrees it will compensate PBMares, LLP for any additional costs incurred as a result of the Commission's employment of a partner or professional employee of PBMares, LLP.

In the event we are requested or authorized by the Commission or are required by government regulation, subpoena or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Commission, the Commission will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of PBMares, LLP. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of PBMares, LLP audit personnel and at a location designated by our firm.

Other Terms

While there is an attorney-client privilege, there is no accountant-client privilege. Accordingly, any information that you provide to us is subject to discovery. Unless prohibited by law, we will notify you if we receive any subpoena, or other third-party request for our information and/or records concerning you. If you direct us to disclose the requested information, we will comply with the subpoena and, in the case of a third-party request, we will need you to sign a form authorizing the disclosure. If you do not direct us to disclose the requested information, we will engage counsel to protect your interest in non-disclosure. In either event, we will bill you for all of our costs associated with complying with your directions. Our bill will include, in addition to our then standard fees and charges and, by way of illustration only, our attorney's fees, court costs, outside advisor's costs, penalties, and fines imposed because of our non-disclosure.

We reserve the right to withdraw from this engagement without completing our services for any reason, including, but not limited to, your failure to comply with the terms of this arrangement letter, or as we determine professional standards require.

If any portion of this engagement letter is deemed invalid or unenforceable, such a finding shall not invalidate the remainder of the terms set forth in this engagement letter.

Dispute Resolution

If any dispute other than fees arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. You and we consent to personal jurisdiction, both for mediation and/or litigation, of the Federal District Court, Eastern District of Virginia, sitting in Richmond, Virginia, or the Richmond Circuit Court. Participation in such mediation shall be a condition to either of us initiating litigation. In order to allow time for the mediation, any applicable statute of limitations shall be tolled for a period not to exceed 120 days from the date either of us first requests in writing to mediate the dispute. The mediation shall be confidential in all respects, as allowed or required by law, except our final settlement positions at mediation shall be admissible in litigation solely to determine the prevailing party's identity for purposes of the award of attorneys' fees.

The parties hereto both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. The arbitration shall take place in Richmond, Virginia. Any award rendered by the Arbitrator pursuant to this Agreement may be filed and entered and shall be enforceable in the Superior Court of the County in which the arbitration proceeds. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury, and instead we are accepting the use of arbitration for resolution.

Information Security – Miscellaneous Terms

PBMares, LLP is committed to the safe and confidential treatment of the Commission's proprietary information. PBMares, LLP is required to maintain the confidential treatment of client information in accordance with relevant industry professional standards which govern the provision of services described herein. The Commission agrees that it will not provide PBMares, LLP with any unencrypted electronic confidential or proprietary information, and the parties agree to utilize commercially reasonable measures to maintain the confidentiality of Commission information, including the use of collaborate sites to ensure the safe transfer of data between the parties.

Reporting

We will issue a written report upon completion of our audit of the Commission's financial statements. Our report will be addressed to the Honorable Commission Board Members. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph, or withdraw from the engagement.

In addition to our report on the Commission's financial statements, we will also issue the following types of reports:

1. A report on the fairness of the presentation of the Commission's schedule of expenditures of federal awards for the year ended June 30, 2018;

2. Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal control;

3. Reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance that could have a material effect on the financial statements and any noncompliance that could have a material effect, as defined by Subpart F of Title 2 U.S. CFR Part 200, Uniform Guidance, on each major program; and

4. An accompanying schedule of findings and questioned costs.

Electronic Signatures and Counterparts

Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (i) to be "written" or "in writing," (ii) to have been signed, and (iii) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, (i) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (ii) an electronic copy of a traditional signature affixed to a document, (iii) a signature incorporated into a document utilizing touchscreen capabilities, or (iv) a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts," of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule.

This letter constitutes the complete and exclusive statement of agreement between PBMares, LLP and the Commission, superseding all proposals, oral or written, and all other communications with respect to the terms of the engagement between the parties.

Please sign and return a copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements, including our respective responsibilities.

Sincerely,

PBMares, LLP

Dwight Buracker

Dwight A. Buracker, Partner

DAB/spw

Confirmed on behalf of the Commission:

Signature

Aug 6, 2018

Date

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

ATTACHMENT A
Year Ended June 30, 2018

Federal Grantor/State Pass-Through Grantor/ Program Title	Federal CFDA Number
DEPARTMENT OF TRANSPORTATION:	
Direct payments:	
Federal Transit Cluster:	
Capital Investment Grants	20.500
Formula Grants (Urbanized Area Formula Program) including ARRA	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula and Discretionary Programs (Bus Program)	20.526
Pass-through payments:	
Metropolitan Washington Council of Government:	
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513
Virginia Department of Transportation:	
Highway Planning and Construction Cluster:	
Highway Planning and Construction (Federal Highway)	20.205

Representation Letter

OMNIRIDE
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November 19, 2018

PBMares, LLP
558 South Main Street
Harrisonburg, Virginia 22801

This representation letter is provided in connection with your audit of the basic financial statements of Potomac and Rappahannock Transportation Commission (Commission) as of and for the year ended June 30, 2018 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of November 19, 2018, the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated July 10, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related party transactions, including those with the Virginia Railway Express, a joint venture in which the Commission has a material financial interest, and Prince William County, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP, if any.

8. The following have been properly recorded and/or disclosed in the financial statements:

   a. Guarantees whether written or oral, under which the Commission is contingently liable.

   b. The fair value of investments.

   c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

   d. Debt issue provisions.

   e. Leases and material amounts of rental obligations under long-term leases.

   f. The effect on the financial statements of GASB Statement No. 83, *Certain Asset Retirement Obligations,* GASB Statement No. 87, *Leases,* GASB Statement 88, *Certain Disclosures Related to Debt,* GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* and GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61,* which have been issued, but which we have not yet adopted.

   g. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

   h. Assets and liabilities measured at fair value.

   i. Significant estimates and material concentrations known to management which are required to be disclosed.

9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

   a. The Commission has no significant amounts of idle property and equipment.

   b. The Commission has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.

   c. Provision has been made to reduce applicable assets that have permanently declined in value to their realizable values.

   d. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

    a. To reduce receivables to their estimated net collectable amounts.

    b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.

    c. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through June 30, 2018.

    d. For risk retention, including uninsured losses or loss retentions (deductibles) attributed to events occurring through June 30, 2018 and/or for expected retroactive insurance premiums adjustments applicable to periods through June 30, 2018.

11. There are no:

    a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

    b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.

    c. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

    d. Agreements to repurchase assets previously sold.

    e. Security agreements in effect under the Uniform Commercial Code.

    f. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

    g. Liabilities which are subordinated in any way to any other actual or possible liabilities.

    h. Debt issue repurchases options or agreements, or sinking fund debt repurchases ordinance requirements.

    i. Risk financing activities.

    j. Derivative financial instruments.

    k. Arbitrage rebate liabilities.

    l. Impaired capital assets.

    m. Risk retentions, including uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2018 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2018.

n. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.

o. Material losses to be sustained as a result of purchase commitments.

p. Environmental clean up obligations.

q. Authorized but unissued bonds and/or notes.

r. Line of credit or similar arrangements.

12. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.

13. The Commission has satisfactory title to all owned assets.

14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

15. Net position components (net investment in capital assets, restricted; and unrestricted), are properly classified and, when applicable, approved.

16. Expenses have been appropriately classified in the Statement of Revenues, Expenses and Changes in Net Position.

17. Revenues are appropriately classified in the Statement of Revenues, Expenses and Changes in Net Position.

18. Capital assets, including intangibles, are properly capitalized, reported, and depreciated or amortized.

19. We have no knowledge of any uncorrected misstatements in the financial statements.

20. We agree with the findings of the specialist in evaluating the assertions found in Footnote 13, Pension Plan, Footnote 14, Other Postemployment Benefits Plan – Group Life Insurance Program, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.

Information Provided

21. We have provided you with:

a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

b. Additional information that you have requested from us for the purpose of the audit.

c. Unrestricted access to persons within the Commission from whom you determined it necessary to obtain audit evidence.

d. Minutes of the meetings of the governing body and committees of the board, or summaries of actions of recent meetings for which minutes have not yet been prepared.

22. All transactions have been recorded in the accounting records and are reflected in the financial statements.

23. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

24. We have no knowledge of allegations of fraud or suspected fraud, affecting the Commission's financial statements involving:

    a. Management.

    b. Employees who have significant roles in the internal control.

    c. Others where the fraud could have a material effect on the financial statements.

25. We have no knowledge of any allegations of fraud or suspected fraud affecting the Commission's financial statements received in communications from employees, former employees, analysts, regulators, or others.

26. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.

27. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

28. We are aware of no significant deficiencies, including material weaknesses in the design or operation of internal controls that could adversely affect the Commission's ability to record, process, summarize, and report financial data.

29. We have disclosed to you the identity of the Commission's related parties and all the related-party relationships and transactions of which we are aware.

30. We have informed you of all communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

31. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

32. We agree with the restatement to the previously issued financial statements discussed in Footnote 16. In that regard:

    a. The restatement adjusts for a change in accounting in those financials.

    b. We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.

Supplementary Information

33. With respect to supplementary information presented in relation to the financial statements as a whole:

    a. We acknowledge our responsibility for the presentation of such information.

b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.

c. The methods of measurement or presentation have not changed from those used in the prior period.

Required Supplementary Information

34. With respect to the Management's Discussion and Analysis and Required Supplementary Information presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such required supplementary information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

    d. All underlying significant assumptions or interpretations are presented in the financial statements.

    e. When required supplementary information is presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the required supplementary information no later than the date of issuance of the required supplementary information and the auditor's report thereon.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards,* we confirm management:

35. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

36. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Commission.

37. Has not identified any instances that have occurred or are likely to have occurred of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

38. Has not identified any instances that have occurred or are likely to have occurred of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

39. Has not identified any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements.

40. Is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

41. Acknowledges its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.

42. Has a process to track the status of audit findings and recommendations.

43. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

44. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:

45. We are responsible for complying, and we have complied, with the requirements of Uniform Guidance.

46. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.

47. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs in existence prior to December 26, 2014, as well as for funding increments and new awards obtained after that date.

48. We have prepared the Schedule of Expenditures of Federal Awards in accordance with Uniform Guidance and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants.

49. We have identified and disclosed all of the Commission's government programs and related activities subject to the Uniform Guidance compliance audit.

50. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program. We have further identified each award resulting from programs in existence prior to December 26, 2014 and funding increments or new awards obtained after that date.

51. We have made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.

52. We believe we have complied with the direct and material compliance requirements.

53. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for reimbursements.

54. We have provided you our interpretations of any compliance requirements subject to varying interpretations.

55. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of your report.

56. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

57. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

58. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

59. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.

60. Federal program financial reports and claims for reimbursements are supported by the books and records from which the basic financial statements have been prepared.

61. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

62. We have charged costs to federal awards in accordance with applicable cost principles and the Uniform Guidance.

63. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance.

64. The reporting package does not contain protected personally identifiable information.

65. We have disclosed all contracts or other agreements with service organizations.

66. We will accurately complete appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

Robert A. Schneider, PhD
Executive Director

Date Signed 11/19/18

Joyce Embrey
Director of Finance and Administration

Date Signed 11/19/18

November 19, 2018

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

In connection with our audit of the financial statements of the Potomac and Rappahannock Transportation Commission ("PRTC" or the "Commission") for the year ended June 30, 2018, we are recommending the following comment as a constructive suggestion for your consideration.

Cyber Security

Cyber security is now widely considered one of the most significant risks affecting businesses and organizations today as a result of the increasing reliance on technology, the increase in the number of confidential records being transmitted and stored electronically (external and internal), and an ever increasing array of cyber-attacks (malware, ransomware, etc.). While we recognize during fiscal year 2018 PRTC had a network assessment performed by an outside party and has implemented a number of its recommendations, we recommend management implement any policies and procedures it deems necessary to mitigate the threat of a cyber-attack. This would also be a great opportunity for PRTC to review its current security policies and procedures regarding the types of information that must be secured, management and monitoring of user rights and privileges, social engineering training and awareness. These efforts could help prevent PRTC from suffering losses brought on by a cyber-attack.

The following are new Governmental Accounting Standard Board (GASB) pronouncements we think should be communicated to PRTC.

New GASB Pronouncements

As of June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Commission. The statements which might impact the Commission are as follows:

Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible assets should recognize a liability based on the guidance in this Statement.

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The requirements of Statement No. 83 are effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 87, *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

The requirements of Statement No. 87 are effective for financial statements for fiscal years beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt*

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of Statement No. 88 are effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of Statement No. 89 should be applied prospectively.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

This report is intended solely for the information and use of management, the Commission, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions concerning any of these items or if we can be of further assistance, please contact us. We thank you for the opportunity to conduct your audit for the year ended June 30, 2018 and express our appreciation to everyone for their cooperation during this engagement.

PBMares, LLP

PBMares, LLP

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2018

PBMares SM

ASSURANCE, TAX & ADVISORY SERVICES

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Commission Board Members
Potomac and Rappahannock Transportation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Commission, as of June 30, 2018, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 16 to the financial statements, the Commission restated beginning net position in order to record the other postemployment benefits and related components in accordance with the implementation of GASB Statement No. 75.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 4-10 and 59-64, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
November 19, 2018

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, 2018. 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, 2018, PRTC's assets exceeded liabilities by $293,572,261. Of this total, $78,219,072 is for bus service and member jurisdictions and $215,353,189 is for commuter rail service.

The net position of PRTC increased by $3,702,283 for fiscal year 2018. This is the net effect of a $167,355 increase from bus service and member jurisdictions and a $3,534,928 increase from commuter rail service.

As of June 30, 2018, PRTC's unrestricted net position is $64,492,739. Of this total, $25,619,680 is for bus service and member jurisdictions and $38,873,059 is for commuter rail service.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE PRTC REPORTING ENTITY AS A WHOLE

Statement of Net Position

The following table presents a summary of the Statement of Net Position for the PRTC reporting entity as of June 30, 2018 and 2017:

Summary of Net Position
As of June 30

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2018	2017	2018	2017	2018	2017
Assets and deferred outflows of resources:						
Current assets	$ 47,074,164	$ 44,076,930	$ 48,449,185	$ 49,342,396	$ 95,523,349	$ 93,419,326
Capital assets, net	38,428,003	42,865,199	176,399,440	173,102,668	214,827,443	215,967,867
Net pension asset	217,448	-	292,569	-	510,017	-
Deferred outflows of resources	315,925	455,857	429,179	646,262	745,104	1,102,119
Total assets and deferred outflows of resources	86,035,540	87,397,986	225,570,373	223,091,326	311,605,913	310,489,312
Liabilities and deferred inflows of resources:						
Current liabilities	5,600,799	7,189,672	4,206,955	4,944,420	9,807,754	12,134,092
Noncurrent liabilities	1,997,684	2,156,597	5,713,615	6,328,645	7,711,299	8,485,242
Deferred inflows of resources	217,985	-	296,614	-	514,599	-
Total liabilities and deferred inflows of resources	7,816,468	9,346,269	10,217,184	11,273,065	18,033,652	20,619,334
Net Position:						
Net investment in capital assets	36,951,457	41,120,936	170,664,839	166,680,316	207,616,296	207,801,252
Restricted	15,647,935	11,530,153	5,815,291	5,624,865	21,463,226	17,155,018
Unrestricted	25,619,680	25,400,628	38,873,059	39,513,080	64,492,739	64,913,708
Total net position	$ 78,219,072	$ 78,051,717	$ 215,353,189	$ 211,818,261	$ 293,572,261	$ 289,869,978

As noted earlier, net position may serve as a useful indicator of a government's financial position. As shown above, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $293.5 million, an increase of $3.7 million over the previous fiscal year. The largest portion of net position, $207.6 million or 70.7%, represents the investment in capital assets (e.g., buses, rail rolling stock, building, building improvements and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. These assets are used to provide bus and rail service and consequently, are not available for future spending.

A portion of the net position, $21.4 million or 7.3%, represents resources restricted for member jurisdictions, commuter rail liability insurance plan, and commuter rail grants or contributions.

Current assets consist primarily of cash, cash equivalents, and investments; grant revenue due from the Federal Government and the Commonwealth of Virginia; and motor fuel tax revenue receivable collected on PRTC's behalf by the Commonwealth. Current assets increased approximately $2.1 million or 2.2% from the prior year, primarily due to increased cash and investments, of $5.2 million, offset by decreased grant and other receivables of $2.7 million and decreased inventory of $0.4 million.

Capital assets, net of accumulated depreciation and amortization, decreased approximately $1.1 million or 0.5 % primarily as the result of rail rolling stock additions and bus overhauls less the sale of older buses, vehicles and rail rolling stock.

Statement of Revenues, Expenses and Changes in Net Position

The following table shows the revenues and expenses and the change in net position of the PRTC reporting entity for the fiscal years ended June 30, 2018 and 2017:

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

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Operating revenues	$ 34,578,463	$ 31,709,101	$ 22,328,585	$ 22,893,674	$ 56,907,048	$ 54,602,775
Nonoperating revenues	27,206,783	28,679,010	11,578,196	12,178,716	38,784,979	40,857,726
Capital grants & assistance, net	11,417,094	18,912,076	(3,672,531)	(16,188,177)	7,744,563	2,723,899
Transfers, net	(24,849,836)	(31,077,499)	24,849,836	31,077,499	-	-
Total revenues	48,352,504	48,222,688	55,084,086	49,961,712	103,436,590	98,184,400
Expenses:						
Operating expenses	41,315,024	42,976,995	41,468,588	39,709,755	82,783,612	82,686,750
Depreciation and amortization	6,416,523	6,342,104	9,100,535	8,868,587	15,517,058	15,210,691
Nonoperating expenses	162,555	32,685	558,082	313,541	720,637	346,226
Total expenses	47,894,102	49,351,784	51,127,205	48,891,883	99,021,307	98,243,667
Change in net position	458,402	(1,129,096)	3,956,881	1,069,829	4,415,283	(59,267)
Net position, beginning, as restated	77,760,670	79,180,813	211,396,308	210,748,432	289,156,978	289,929,245
Net position, ending	$ 78,219,072	$ 78,051,717	$ 215,353,189	$ 211,818,261	$ 293,572,261	$ 289,869,978

For the fiscal year ended June 30, 2018, revenues totaled $103.4 million, compared to $98.2 million in the preceding year, an increase of $5.2 million or 5.3%. Expenses increased by $0.7 million or 0.8%. A discussion of the key components of these changes follows.

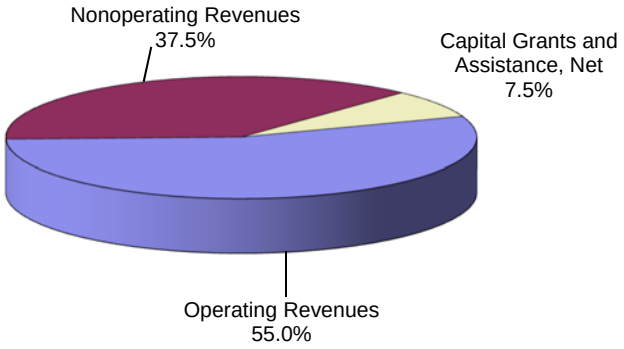
Operating revenues increased $2.3 million or 4.2% from the prior year, primarily the result of an increase in motor fuel tax revenue of $2.7 million offset by decreased passenger revenue of $0.4 million.

Nonoperating revenues decreased by $2.1 million or 5.1% from the prior year, primarily the result of decreases in federal and state nonoperating grant revenue, commuter rail jurisdictional contributions, and other revenue offset by increased investment income. Federal and state nonoperating grant revenue decreased by $0.86 million, commuter rail jurisdictional contribution decreased by $0.93 million, other revenue decreased by $0.7 million, offset by an increase of $0.4 million in investment income.

Net capital grants and assistance increased by $5.0 million, which is attributable to less bus and rail service related federal capital grants for fiscal year 2018 compared to fiscal year 2017. In addition, the increase is due to the change in the contribution to NVTC as a result of allocating rail service between PRTC and NVTC for financial reporting purposes. Fiscal year 2018 reflects contributions to NVTC of $4.0 million while fiscal year 2017 reflects contributions to NVTC of $16.5 million.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2018.

FY18 Revenues



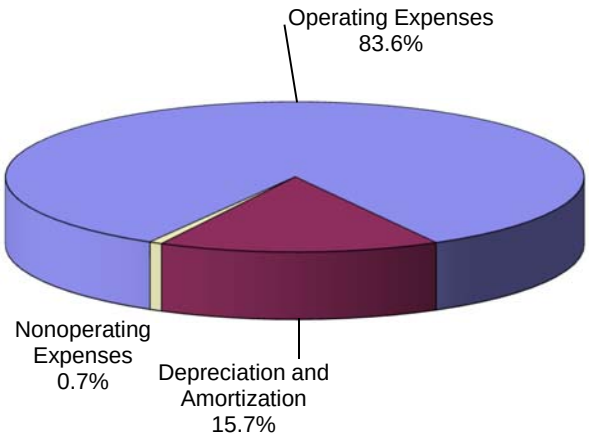
Operating expenses increased by $0.1 million or 0.1%.

For the Bus Service and Member Jurisdictions Fund, operating expenses decreased by $1.7 million, primarily due to direct transportation expenses. Direct transportation expenses, which represent the use of jurisdictional motor fuel tax funds for the VRE subsidy as well as other jurisdictional transportation projects independent of PRTC, decreased by $3.1 million, while combined expenses for fuel, supplies, contractual and other services increased by $1.4 million.

For the Commuter Rail Service Fund, operating expenses increased by $1.7 million or 4.4%. PRTC's share of the reporting entity decreased slightly from 54% to 53%, with a corresponding increase for NVTC. Other operations and maintenance costs increased by $1.4 million due primarily to an increase in asset management maintenance expenses, increases in diesel fuel costs, and increased costs of railcar maintenance.

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2018.

FY18 Expenses



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2018 and 2017 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2018	2017	2018	2017	2018	2017
Buses and related equipment	$ 77,998,888	$ 78,422,864	$ -	$ -	$ 77,998,888	$ 78,422,864
Rail rolling stock	-	-	142,639,959	135,474,545	142,639,959	135,474,545
Land	6,639,270	6,639,270	-	-	6,639,270	6,639,270
Buildings	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Building improvements	4,067,332	4,056,814	-	-	4,067,332	4,056,814
Construction in progress	3,437,331	3,373,911	13,648,998	11,952,082	17,086,329	15,325,993
Site improvements	1,430,513	1,430,513	-	-	1,430,513	1,430,513
Bus shelters	1,491,530	1,497,616	-	-	1,491,530	1,497,616
Vehicles	143,131	141,987	58,522	83,711	201,653	225,698
Furniture and equipment	2,513,229	2,523,153	-	-	2,513,229	2,523,153
Software and easement	3,920,724	3,920,724	-	-	3,920,724	3,920,724
Facilities	-	-	52,967,852	51,740,443	52,967,852	51,740,443
Track and signal improvements	-	-	41,717,264	41,742,675	41,717,264	41,742,675
Furniture, equipment and software	-	-	8,918,939	8,838,409	8,918,939	8,838,409
Equity in property of others	-	-	2,893,643	2,893,643	2,893,643	2,893,643
	109,694,289	110,059,193	262,845,177	252,725,508	372,539,466	362,784,701
Less accumulated depreciation and amortization	71,266,286	67,193,994	86,445,737	79,622,840	157,712,023	146,816,834
Total capital assets, net	$ 38,428,003	$ 42,865,199	$ 176,399,440	$ 173,102,668	$ 214,827,443	$ 215,967,867

PRTC's investment in capital assets as of June 30, 2018, amounted to $214.8 million (net of accumulated depreciation and amortization), which represents a decrease of $1.1 million or 0.5%.

For bus service and member jurisdictions, eight OmniRide buses were overhauled and five OmniRide buses were sold during fiscal year 2018. The overhaul related costs amounted to $1.8 million.

For commuter rail service, nine Gallery railcars ($9.4 million) were placed into service, seven Gallery railcars were sold, and the Lorton Station main platform ($1.2 million) project was completed in fiscal year 2018.

The major additions to construction in progress for commuter rail service during the fiscal year were related to acquisition of nine new Gallery railcars ($9.2 million); the Lorton Station main platform expansion ($0.6 million); work toward both the L'Enfant Storage Track North ($0.4 million); ongoing work toward implementation of Positive Train Control (PTC) ($0.4 million); and development work for the Mid-Day Storage Yard project ($0.3 million).

Debt Administration

At June 30, 2018, PRTC had an outstanding principal balance of $1,295,000 for its Series 2012 Revenue Bond with the Virginia Resources Authority.

PRTC's portion of debt for the commuter rail service is $5.7 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET POSITION
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	$ 23,556,425	$ 26,898,426	$ 50,454,851
Receivables:			
Due from other governments	24,137,500	-	24,137,500
Trade receivables, net of allowance for doubtful accounts	-	1,412,364	1,412,364
Miscellaneous	45,979	894,641	940,620
Internal balances	(11,623,725)	11,623,725	-
Inventory	-	1,728,657	1,728,657
Prepaid expenses and other assets	37,106	76,081	113,187
Restricted assets:			
Cash and investments in pooled funds - member jurisdictions	10,920,879	-	10,920,879
Cash, cash equivalents and investments	-	5,815,291	5,815,291
Total current assets	47,074,164	48,449,185	95,523,349
Noncurrent Assets			
Net pension asset	217,448	292,569	510,017
Capital assets:			
Transportation equipment:			
Buses and related equipment	77,998,888	-	77,998,888
Rail rolling stock	-	142,639,959	142,639,959
Less: accumulated depreciation	(58,235,731)	(40,967,663)	(99,203,394)
Transportation equipment, net	19,763,157	101,672,296	121,435,453
Land, buildings and equipment:			
Land	6,639,270	-	6,639,270
Buildings	8,052,341	-	8,052,341
Building improvements	4,067,332	-	4,067,332
Construction in progress	3,437,331	13,648,998	17,086,329
Site improvements	1,430,513	-	1,430,513
Bus shelters	1,491,530	-	1,491,530
Vehicles	143,131	58,522	201,653
Furniture and equipment	2,513,229	-	2,513,229
Software and easement	3,920,724	-	3,920,724
Facilities	-	52,967,852	52,967,852
Track and signal improvements	-	41,717,264	41,717,264
Furniture, equipment and software	-	8,918,939	8,918,939
Equity in property of others	-	2,893,643	2,893,643
Less: accumulated depreciation and amortization	(13,030,555)	(45,478,074)	(58,508,629)
Land, buildings and equipment, net	18,664,846	74,727,144	93,391,990
Total capital assets, net	38,428,003	176,399,440	214,827,443
Total noncurrent assets	38,645,451	176,692,009	215,337,460
Deferred Outflows of Resources			
Pension plan	276,257	371,696	647,953
Other postemployment benefits	39,668	57,483	97,151
Total deferred outflows of resources	315,925	429,179	745,104
Total assets and deferred outflows of resources	$ 86,035,540	$ 225,570,373	$ 311,605,913

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	$ 3,666,125	$ 1,335,879	$ 5,002,004
Accrued expenses	-	1,173,058	1,173,058
Accrued payroll and benefits	539,473	-	539,473
Accrued interest	15,455	43,802	59,257
Due to other governments	160,025	-	160,025
Unearned revenue	948,739	894,600	1,843,339
Capital leases	-	718,395	718,395
Compensated absences	40,982	41,221	82,203
Bond payable	230,000	-	230,000
Total current liabilities	5,600,799	4,206,955	9,807,754
Noncurrent Liabilities			
Compensated absences	464,173	281,374	745,547
Net other postemployment benefits liability	286,965	416,035	703,000
Capital leases	-	5,016,206	5,016,206
Bond payable, net	1,246,546	-	1,246,546
Total noncurrent liabilities	1,997,684	5,713,615	7,711,299
Total liabilities	7,598,483	9,920,570	17,519,053
Deferred Inflows of Resources			
Pension plan	186,145	250,454	436,599
Other postemployment benefits	31,840	46,160	78,000
Total deferred inflows of resources	217,985	296,614	514,599
Net Position			
Net investment in capital assets	36,951,457	170,664,839	207,616,296
Restricted	15,647,935	5,268,168	20,916,103
Restricted grants and contributions	-	547,123	547,123
Unrestricted	25,619,680	38,873,059	64,492,739
Total net position	78,219,072	215,353,189	293,572,261
Total liabilities and net position	$ 86,035,540	$ 225,570,373	$ 311,605,913

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax	$ 23,256,152	$ -	$ 23,256,152
Farebox and passenger	11,224,123	22,187,137	33,411,260
Advertising	98,188	-	98,188
Equipment rental and other	-	141,448	141,448
Total operating revenues	34,578,463	22,328,585	56,907,048
Operating Expenses			
Direct transportation	8,172,398	-	8,172,398
Salaries and related benefits	5,068,323	-	5,068,323
Contractual services	22,978,494	-	22,978,494
Other services	1,900,078	-	1,900,078
Materials, supplies and minor equipment	1,055,230	-	1,055,230
Fuel	2,140,501	-	2,140,501
Contract operations and maintenance	-	14,144,926	14,144,926
Other operations and maintenance	-	9,192,071	9,192,071
Property leases and access fees	-	8,772,404	8,772,404
Insurance	-	1,979,202	1,979,202
Marketing and sales	-	1,329,193	1,329,193
General and administrative	-	6,050,792	6,050,792
Total operating expenses	41,315,024	41,468,588	82,783,612
Operating loss before depreciation and amortization	(6,736,561)	(19,140,003)	(25,876,564)
Depreciation and amortization	(6,416,523)	(9,100,535)	(15,517,058)
Operating loss	(13,153,084)	(28,240,538)	(41,393,622)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	10,804,659	10,804,659
Commonwealth of Virginia grants	6,983,628	-	6,983,628
Federal grants	19,405,200	-	19,405,200
Regional transportation funding	-	383,293	383,293
Investment income	314,313	390,244	704,557
Pass-through grants - member jurisdictions	(140,920)	-	(140,920)
Interest, amortization and other nonoperating expenses, net	(21,635)	(282,354)	(303,989)
Other revenue	486,228	-	486,228
Total nonoperating revenues, net	27,026,814	11,295,842	38,322,656
Capital Grants and Assistance			
Commonwealth of Virginia grants	1,713,905	-	1,713,905
Federal grants	9,703,189	-	9,703,189
Regional transportation funding	-	307,595	307,595
Contribution to NVTC	-	(3,980,126)	(3,980,126)
Total capital grants and assistance, net	11,417,094	(3,672,531)	7,744,563
Income (loss) before transfers and gain (loss) on disposal of assets	25,290,824	(20,617,227)	4,673,597
Transfers, net	(24,849,836)	24,849,836	-
Gain (Loss) on Disposal of Assets	17,414	(275,728)	(258,314)
Change in net position	458,402	3,956,881	4,415,283
Net Position, beginning, as restated	77,760,670	211,396,308	289,156,978
Net Position, ending	$ 78,219,072	$ 215,353,189	$ 293,572,261

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	$ 21,902,674	$ -	$ 21,902,674
Receipts from customers	11,274,649	21,933,012	33,207,661
Receipts from advertising	98,188	-	98,188
Payments to suppliers	(27,996,418)	(36,735,698)	(64,732,116)
Payments to member jurisdictions	(9,883,287)	-	(9,883,287)
Payments to employees	(3,975,166)	(4,859,842)	(8,835,008)
Net cash used in operating activities	(8,579,360)	(19,662,528)	(28,241,888)
Cash Flows from Capital and Related Financing Activities			
Interest payments on revenue bond	(66,884)	-	(66,884)
Principal payments on revenue bond	(225,000)	-	(225,000)
Interest payments on capital leases	-	(287,551)	(287,551)
Principal payments on capital leases	-	(687,751)	(687,751)
Proceeds from sale of assets	23,290	1,750	25,040
Insurance recoveries	50,000	-	50,000
Contribution to NVTC	-	(3,980,126)	(3,980,126)
Capital grants and assistance	11,718,389	-	11,718,389
Purchase of buses and related equipment	(1,616,520)	-	(1,616,520)
Acquisition of capital assets	(132,409)	(14,073,020)	(14,205,429)
Net cash provided by (used in) capital and related financing activities	9,750,866	(19,026,698)	(9,275,832)
Cash Flows from Noncapital Financing Activities			
Governmental subsidies	30,630,577	10,927,646	41,558,223
Interfund transfers	(28,057,996)	28,057,996	-
Payments for jurisdiction grant - related expenditures	(140,920)	-	(140,920)
Net cash provided by noncapital financing activities	2,431,661	38,985,642	41,417,303
Cash Flows From Investing Activities			
Investment income	314,313	393,632	707,945
Other revenues	558,250	-	558,250
Net cash provided by investing activities	872,563	393,632	1,266,195
Increase in cash and cash equivalents	4,475,730	690,048	5,165,778
Cash and Cash Equivalents			
Beginning	30,001,574	32,023,669	62,025,243
Ending	$ 34,477,304	$ 32,713,717	$ 67,191,021

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2018

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating loss	$ (13,153,084)	$ (28,240,538)	$ (41,393,622)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	6,416,523	9,100,535	15,517,058
Pension (benefit) expense	(68,380)	87,465	19,085
Other postemployment benefits expense	6,939	10,061	17,000
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	(1,066,971)	-	(1,066,971)
Miscellaneous receivables	(12,356)	27,280	14,924
Prepaid expenses and other assets	(6,904)	(96)	(7,000)
Deferred outflows of resources - pension contributions	(2,975)	8,492	5,517
Deferred outflows of resources - other postemployment benefits contributions	(18,850)	(27,301)	(46,151)
Trade receivables	-	(352,224)	(352,224)
Inventory	-	39,132	39,132
Increase (decrease) in:			
Accounts payable and other liabilities	84,789	(244,705)	(159,916)
Accrued payroll and benefits	1,176,423	-	1,176,423
Due to other governments	(1,867,174)	-	(1,867,174)
Unearned revenue	(67,340)	(70,629)	(137,969)
Net cash used in operating activities	$ (8,579,360)	$ (19,662,528)	$ (28,241,888)
Schedule of Noncash Capital Activities			
Capital assets acquired through:			
Accounts payable	$ 236,274	$ 196,194	$ 432,468
Accrued expenses	-	36,750	36,750

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

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

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

	Members	Represented Jurisdictions
Prince William County	6	1
Stafford County	2	1
Spotsylvania County	2	1
City of Manassas	1	1
City of Manassas Park	1	1
City of Fredericksburg	1	1
Commonwealth House of Delegates	2	1
Commonwealth Senate	1	1
Virginia Department of Rail and Public Transportation	1	-
	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.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

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

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

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

PRTC reports the following major enterprise funds:

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and investments in pooled funds, member jurisdictions: Cash and investments in pooled funds represent PRTC's share of the pooled cash and investments held by the State Treasurer's Local Government Investment Pool ("LGIP") for the benefit of the member jurisdictions. The LGIP holds and invests certain funds of PRTC on its behalf.

The Commission classifies as cash and cash equivalents amounts on deposit with banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase.

Restricted assets: Restricted assets represent funds designated for specific purposes.

Restricted cash and investments in pooled funds – member jurisdictions of $10,920,879 at June 30, 2018 for the Bus Service and Member Jurisdictions Fund are comprised of funds related to the 2.1% motor fuel tax revenue received on behalf of the Member Jurisdictions to be used for transit related projects.

Restricted cash, cash equivalents and investments of $5,815,291 at June 30, 2018 for the Commuter Rail Service Fund are comprised of funds related to the balance in the Liability Insurance Plan, a small liability claims account, and funds related to a property transfer with restricted future uses.

Allowance for uncollectible accounts: The allowance for uncollectible accounts is calculated by using historical collection data and specific account analysis. The allowance was approximately $111,000 at June 30, 2018.

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

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

Deferred outflows/inflows of resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. PRTC currently has items related to the pension plan and other postemployment benefits (OPEB) – Group Life Insurance Program (GLI) that qualify for reporting in this category. See Notes 13 and 14 for details regarding these items.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. PRTC currently has items related to the pension plan and GLI - OPEB that qualify for reporting in this category. See Notes 13 and 14 for details regarding these items.

Note 2. Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are stated at historical cost. Capital assets are defined by PRTC for the Bus Service and Member Jurisdictions Fund as tangible assets with an initial, individual cost of more than $5,000 or intangible assets costing more than $25,000 with an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation. The Commuter Rail Service Fund capitalizes assets that have an initial cost of $5,000 or more per unit and a useable life of two or more years, with the exception of software purchases, which are only capitalized if the initial cost is $15,000 or more.

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

Buses and related equipment	2 - 12 years
Rail rolling stock	8 - 25 years
Buildings and improvements	5 - 30 years
Site improvements	5 - 20 years
Bus shelters	5 years
Vehicles	5 years
Facilities	30 - 40 years
Track and signal improvements	30 years
Furniture, equipment, and software	2 - 15 years
Equity in property of others	3 - 35 years

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2018.

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

Group life insurance program (GLI): The VRS GLI is a multiple employer, cost-sharing OPEB plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI was established pursuant to Section 51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI is a defined benefit plan that provides a basic GLI benefit for employees of participating employers. For purposes of measuring the net GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

Subsequent events: The Commission has evaluated subsequent events through November 19, 2018, which was the date the financial statements were available to be issued.

Note 3. Cash and Investments

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

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

The Commission has investments in the LGIP and Federated Government Obligations Fund (FG), which are professionally managed money market funds that invest in qualifying obligations and securities as permitted by state statutes. Pursuant to Section 2.2-4605 *Code of Virginia,* the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. PRTC's investments in the LGIP are stated at amortized cost and classified as cash and cash equivalents. The LGIP and FG have been assigned an "AAAm" rating by Standard & Poor's. The maturity of the LGIP and FG is less than one year.

The Commonwealth of Virginia Department of the Treasury manages PRTC's Insurance Trust. State statutes govern the portion of assets invested in the Commonwealth's pooled accounts, while the remainder is invested by an external portfolio manager. At June 30, 2018, PRTC had $5,240,952 invested in the Insurance Trust.

Note 3. Cash and Investments (Continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment if the investment is held for a long period of time. Interest rate risk does not apply to the LGIP since it is an external investment pool classified in accordance with Governmental Accounting Standards Board (GASB) Statement No. 79.

As of June 30, 2018, the carrying values and maturity of investments were as follows:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total	Fair Value	Maturities Less Than One Year
Sweep Account	$ 23,657,000	$ -	$ 23,657,000	$ 23,657,000	$ 23,657,000
LGIP	-	24,080,047	24,080,047	24,080,047	24,080,047
	23,657,000	24,080,047	47,737,047	47,737,047	47,737,047
Restricted:					
Insurance trust fund - pooled funds	-	5,240,952	5,240,952	5,240,952	5,240,952
LGIP	10,920,879	574,339	11,495,218	11,495,218	11,495,218
	10,920,879	5,815,291	16,736,170	16,736,170	16,736,170
	$ 34,577,879	$ 29,895,338	$ 64,473,217	$ 64,473,217	$ 64,473,217

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

The Commission has the following recurring fair value measurement as of June 30, 2018:

- Sweep Account of $23,657,000 is valued using quoted market prices (Level 2 inputs).

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

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, Sections 2.1-327 to 2.1-329.1 of the *Code of Virginia.* The following are included on the list of authorized investments:

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

Diversification

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

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

2. The Bus Service and Member Jurisdiction Fund investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

LGIP	100% maximum
U.S. Treasury and Agency Securities	100% maximum
Certificates of Deposit	25% maximum
Repurchase Agreements	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	35% maximum
Corporate Notes and Bank Notes	25% maximum

The Commuter Rail Service Fund's investment policy provides limitations on the percentage of the portfolio that can be invested in each type of security, as indicated in the following chart.

Note 3. Cash and Investments (Continued)

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

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

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

	Bus Service and Member Jurisdictions
Stafford County	$ 2,605,462
Prince William County	927,646
City of Manassas	371,558
City of Manassas Park	2,495,070
City of Fredericksburg	944,025
Spotsylvania County	3,577,118
	$ 10,920,879

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions
Virginia Department of Motor Vehicles - motor fuel tax receipts	$ 4,727,056
Virginia Department of Rail and Public Transportation	840,158
Federal Transit Administration	17,194,007
Washington Metropolitan Area Transit Authority	676,006
Virginia Department of Transportation	221,219
Northern Virginia Transportation Commission	300,578
Prince William County	1,240
Metropolitan Washington Council of Governments	19,419
City of Manassas	157,817
	$ 24,137,500

Amounts due to other governments are as follows:

	Bus Service and Member Jurisdictions
Prince William County	$ 156,285
Virginia Department of Rail and Public Transportation	3,740
	$ 160,025

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Increases	Decreases	Transfers	Balance June 30, 2018
Capital assets not being depreciated or amortized:					
Land	$ 6,639,270	$ -	$ -	$ -	$ 6,639,270
Construction in progress	15,325,993	12,349,361	(4,865)	(10,584,160)	17,086,329
Total capital assets not being depreciated or amortized	21,965,263	12,349,361	(4,865)	(10,584,160)	23,725,599
Capital assets being depreciated and amortized:					
Buses and related equipment	78,422,864	1,840,580	(2,264,556)	-	77,998,888
Rail rolling stock	135,474,545	-	(2,238,304)	9,403,718	142,639,959
Buildings	8,052,341	-	-	-	8,052,341
Building improvements	4,056,814	10,518	-	-	4,067,332
Site improvements	1,430,513	-	-	-	1,430,513
Bus shelters	1,497,616	-	(6,086)	-	1,491,530
Vehicles	225,698	57,139	(81,184)	-	201,653
Furniture and equipment	2,523,153	22,825	(32,749)	-	2,513,229
Software and easement	3,920,724	-	-	-	3,920,724
Facilities	51,740,443	46,967	-	1,180,442	52,967,852
Track and signal improvements	41,742,675	-	(25,411)	-	41,717,264
Furniture, equipment and software	8,838,409	80,530	-	-	8,918,939
Equity in property of others	2,893,643	-	-	-	2,893,643
Total capital assets being depreciated and amortized	340,819,438	2,058,559	(4,648,290)	10,584,160	348,813,867
Less accumulated depreciation and amortization for:					
Buses and related equipment	55,871,839	4,628,448	(2,264,556)	-	58,235,731
Rail rolling stock	37,593,600	5,612,367	(2,238,304)	-	40,967,663
Buildings	5,232,970	268,512	-	-	5,501,482
Building improvements	2,004,457	250,723	-	-	2,255,180
Site improvements	568,695	69,577	-	-	638,272
Bus shelters	1,196,581	105,943	(6,086)	-	1,296,438
Vehicles	166,744	26,786	(81,184)	-	112,346
Furniture and equipment	797,226	448,998	(31,739)	-	1,214,485
Software and easement	1,408,070	627,828	-	-	2,035,898
Facilities	19,194,941	1,567,783	-	-	20,762,724
Track and signal improvements	13,281,696	1,407,083	-	-	14,688,779
Furniture, equipment and software	7,681,682	419,387	-	-	8,101,069
Equity in property of others	1,818,333	83,623	-	-	1,901,956
Total accumulated depreciation and amortization	146,816,834	15,517,058	(4,621,869)	-	157,712,023
Total capital assets being depreciated and amortized, net	194,002,604	(13,458,499)	(26,421)	10,584,160	191,101,844
Total capital assets, net	$ 215,967,867	$ (1,109,138)	$ (31,286)	$ -	$ 214,827,443

Note 6. Long-Term Liabilities

Revenue Bond

$2,335,000, Series 2012 Revenue Bond, due in annual installments of $230,000 to $285,000 through October 2022, plus interest at 4.56% to 4.83%	$ 1,295,000

Mandatory debt service requirements consist of the following:

Year Ending June 30,	Principal	Interest	Total Required
2019	$ 230,000	$ 56,575	$ 286,575
2020	245,000	45,428	290,428
2021	260,000	33,263	293,263
2022	275,000	20,378	295,378
2023	285,000	6,878	291,878
	$ 1,295,000	$ 162,522	$ 1,457,522

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 $15,198,141 (PRTC reporting entity, $7,599,071)	$ 11,451,643	$ 5,725,822

Note 6. Long-Term Liabilities (Continued)

Future minimum lease payments as of June 30, 2018 are as follows:

Year(s) Ending June 30,	Total	PRTC Reporting Entity
2019	$ 1,931,357	$ 965,679
2020	1,931,357	965,679
2021	1,931,357	965,679
2022	1,931,357	965,678
2023	1,931,357	965,678
2024-2025	3,862,714	1,931,357
Total minimum lease payments	13,519,499	6,759,750
Less amount representing interest	2,067,856	1,033,928
Present value of lease payments	$ 11,451,643	$ 5,725,822

Capitalized Leases – Copiers

	Total	PRTC Reporting Entity
$73,425 capitalized lease obligations; $1,329 due monthly, interest at 9.39%, maturing in 2020; $330 due monthly, interest at 11.73%, maturing in 2018, collateralized with three multifunction copiers with a carrying value of $12,690 (PRTC reporting entity, $6,345)	$ 17,559	$ 8,779

Future minimum lease payments as of June 30, 2018 are as follows:

Year Ending June 30,	Total	PRTC Reporting Entity
2019	$ 15,948	$ 7,974
2020	2,658	1,329
Total minimum lease payments	18,606	9,303
Less amount representing interest	1,047	524
Present value of lease payments	$ 17,559	$ 8,779

Note 6. Long-Term Liabilities (Continued)

The following is a summary of long-term liability activity for the year ended June 30, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bond	$ 1,520,000	$ -	$ 225,000	$ 1,295,000	$ 230,000
Unamortized premium	224,263	-	42,717	181,546	-
Capital leases	6,422,352	-	687,751	5,734,601	718,395
	$ 8,166,615	$ -	$ 955,468	$ 7,211,147	$ 948,395

Note 7. Net Position

Restricted net position represents net assets subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net position as of June 30, 2018:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash and investments	$ 10,920,879	$ 27,216	$ 10,948,095
Due from other governments, net	4,727,056	-	4,727,056
Grants and contributions	-	547,123	547,123
Cash and investments - insurance trust fund	-	5,240,952	5,240,952
	$ 15,647,935	$ 5,815,291	$ 21,463,226

Unrestricted net position consists of the following as of June 30, 2018:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support future years' budgets	$ 7,680,000	$ -	$ 7,680,000
Local match for federal/state grants	2,672,088	-	2,672,088
Total designations	10,352,088	-	10,352,088
Undesignated unrestricted net position	15,267,592	38,873,059	54,140,651
Total unrestricted net position	$ 25,619,680	$ 38,873,059	$ 64,492,739

Note 8. Joint Venture – Virginia Railway Express

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

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

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

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

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan (refinanced in fiscal year 2018 to a bond), a lease financing, Federal and Commonwealth of Virginia grants, Northern Virginia Transportation Authority (NVTA) regional grants and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania, and Stafford; and the cities of Manassas, Manassas Park, and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia.

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 former 90% system ridership and 10% population formula. The amendment to the subsidy formula was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

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

Financial information from VRE's fiscal year 2018 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS
STATEMENT OF NET POSITION
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	51,186,348
Accounts receivable:		
Due from PRTC – FTA and other		13,007,142
Commonwealth of Virginia grants		9,824,555
Trade receivables, net of allowance for doubtful accounts		2,687,658
Other receivables		1,776,165
Inventory		3,289,547
Prepaid expenses and other		144,779
Restricted cash, cash equivalents and investments		13,627,126
Total current assets		95,543,320
Noncurrent Assets		
Pension asset		292,569
Capital assets (net of $172,891,474 accumulated depreciation and amortization)		352,798,880
Total noncurrent assets		353,091,449
Total assets		448,634,769
Deferred Outflows of Resources		
Loss on refunding		455,136
Pension plan		371,696
Other postemployment benefits		57,483
Total deferred outflows of resources		884,315
Total assets and deferred outflows of resources	$	449,519,084
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued liabilities	$	6,940,371
Unearned revenue		1,702,378
Current portion of:		
Capital lease obligations		1,436,789
Bonds payable		2,280,000
Total current liabilities		12,359,538
Noncurrent Liabilities		
Other postemployment benefits		416,035
Capital lease obligations		10,032,413
Bonds payable		50,232,848
Compensated absences		535,440
Total noncurrent liabilities		61,216,736
Total liabilities		73,576,274
Deferred Inflows of Resources		
Pension plan		250,454
Other postemployment benefits		46,160
Total deferred inflows of resources		296,614
Net Position		
Net investment in capital assets		289,271,966
Restricted for liability insurance plan		10,536,336
Restricted for debt service		1,996,544
Restricted grants or contributions		1,094,246
Unrestricted assets		72,747,104
Total net position		375,646,196
Total liabilities, deferred inflows of resources and net position	$	449,519,084

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

VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018

Operating Revenues	$ 42,490,170
Operating Expenses	79,049,691
Operating loss before depreciation and amortization	(36,559,521)
Depreciation and Amortization	(18,201,071)
Operating loss	(54,760,592)
Nonoperating Revenues (Expenses)	
Subsidies:	
Commonwealth of Virginia grants	17,145,270
Federal grants – with PRTC as grantee	15,362,802
Jurisdictional contributions	17,250,240
Regional transportation funding (NVTA)	766,586
Interest income:	
Operating funds	616,228
Insurance trust	132,037
Other restricted funds	797
Loss on disposal of assets	(551,457)
Interest, amortization and other nonoperating expenses, net	(3,147,164)
Total nonoperating revenues, net	47,575,339
Capital Grants and Assistance	
Commonwealth of Virginia grants	13,010,326
Federal grants – with PRTC as grantee	9,559,056
Regional transportation funding (NVTA)	615,190
Local contributions	12,842
Total capital grants and assistance	23,197,414
Change in net position	16,012,161
Net Position, beginning of year, as restated	359,634,035
Net Position, ending	$ 375,646,196

Note 9. Direct Transportation Expenses

In addition to PRTC administrative costs, the member jurisdictions authorize disbursements from their respective 2.1% motor fuel tax revenues for transportation projects operating or originating within their jurisdiction. During the year ended June 30, 2018, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	$ 5,191,287
Other jurisdictional projects	2,981,111
	$ 8,172,398

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

Note 10. Risk Management and Liability Insurance Plan

PRTC and the VRE commuter rail operation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to address these risks, including workers' compensation and employee health and accidental insurance. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property coverage. The Commissions indemnify each of the railroads in an amount up to the passenger rail liability cap (currently at $295,000,000) for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately $140,000 at June 30, 2018, of which $70,000 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.

Note 10. Risk Management and Liability Insurance Plan (Continued)

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2006, all plan assets have been invested in the Department of the Treasury common pool. Activity in the Insurance Trust Fund for the year ended June 30, 2018 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1, 2017	$ 10,416,871	$ 5,208,436
Contribution to reserves	3,700,000	1,850,000
Insurance premiums paid	(3,742,259)	(1,871,130)
Investment income	132,037	66,019
Actuarial and administrative charges	(24,745)	(12,373)
Ending balance, June 30, 2018	$ 10,481,904	$ 5,240,952

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

Note 11. Related Party Transactions

For the year ended June 30, 2018, expenses incurred for legal services provided by Prince William County were $39,000.

Note 12. Deferred Compensation Benefits

PRTC offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of plan participants and/or beneficiaries. PRTC has the duty of due care that would be required of any prudent investor.

PRTC contributions to the deferred compensation plan for the year ended June 30, 2018 were $18,400.

PRTC also offers a Governmental Money Purchase Plan (401a) to the Executive Director (including the Interim) for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2018 were $18,518.

Note 13. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. •The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. •The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. •In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component** See definition under Plan 1 **Defined Contribution Component** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component** The retirement multiplier for the defined benefit component is 1.0%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

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

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Continued)	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Eligible political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Note 13. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component** Not applicable.

Note 13. Pension Plan (Continued)

B. Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	22
Inactive members:	
Vested	18
Non-vested	27
Active elsewhere in VRS	9
Total inactive members	54
Active members	91
Total covered employees	167

C. Contributions

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

PRTC's contractually required contribution rate for the year ended June 30, 2018 was 5.37% for Plan 1 and Plan 2 and 4.37% for the Hybrid Plan of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from PRTC were $413,766 and $419,283 for the years ended June 30, 2018 and 2017, respectively.

D. Net Pension (Asset) Liability

PRTC's net pension (asset) liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension (asset) liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Note 13. Pension Plan (Continued)

E. Actuarial Assumptions

The total pension liability for the Commission's retirement plan was based on an actuarial valuation using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality Rates:	15% of deaths are assumed to be service related.
– Pre-retirement:	RP-2014 Employee Rates at age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.
– Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
– Post-disablement:	RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through nine years of service
Disability Rates	Lowered rates
Salary Scale	No change

Note 13. Pension Plan (Continued)

F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Note 13. Pension Plan (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for PRTC's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

H. Changes in the Net Pension (Asset) Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
Balance at June 30, 2016	$ 15,244,599	$ 14,713,522	$ 531,077
Changes for the year:			
Service cost	756,831	-	756,831
Interest	1,051,830	-	1,051,830
Changes of assumptions	(243,263)	-	(243,263)
Difference between expected and actual experience	38,724	-	38,724
Contributions – employer	-	419,283	(419,283)
Contributions – employee	-	407,825	(407,825)
Net investment income	-	1,829,732	(1,829,732)
Benefit payments, including refunds of employee contributions	(436,912)	(436,912)	-
Administrative expense	-	(9,970)	9,970
Other changes	-	(1,654)	1,654
Net changes	1,167,210	2,208,304	(1,041,094)
Balance at June 30, 2017	$ 16,411,809	$ 16,921,826	$ (510,017)

Note 13. Pension Plan (Continued)

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension (asset) liability	$ 1,834,373	$ (510,017)	$ (2,442,477)

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

For the year ended June 30, 2018, the Commission recognized pension expense of $19,085. The Commission also reported deferred outflows and inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 234,187	$ -
Changes of assumptions	-	187,340
Net difference between projected and actual earnings on pension plan investments	-	249,259
Employer contributions subsequent to the measurement date	413,766	-
Total	$ 647,953	$ 436,599

The $413,766 reported as deferred outflows of resources related to pensions resulting from PRTC's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019.

Note 13. Pension Plan (Continued)

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

Other amounts reported as deferred outflows and (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	$ (105,827)
2020	81,034
2021	(3,857)
2022	(173,762)
	$ (202,412)

K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program

A. Plan Description

All full-time, salaried permanent employees of PRTC are automatically covered by the VRS Group Life Insurance Program (GLI) upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI program. For members who elect the optional GLI coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from the members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

A. Plan Description (Continued)

The specific information for GLI Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The GLI was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.
Benefit Amounts The benefits payable under the GLI have several components. • Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the GLI are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under GLI. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 COLA and is currently $8,111.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

B. Contributions

The contribution requirements for the GLI are governed by Sections 51.1-506 and 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI from PRTC were $46,151 and $44,865 for the years ended June 30, 2018 and June 30, 2017, respectively.

C. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, PRTC reported a liability of $703,000 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the net GLI OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLI for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was $44,865 or 0.04678% as compared to $37,373 or 0.04333% at June 30, 2016.

For the year ended June 30, 2018, PRTC recognized GLI OPEB expense of $17,000. Since there was a change in the proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	$ -	$ 16,000
Changes of assumptions	-	36,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	26,000
Changes in proportion	51,000	-
Employer contributions subsequent to the measurement date	46,151	-
Total	$ 97,151	$ 78,000

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

C. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

The $46,151 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net GLI OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,	Amount
2019	$ (7,000)
2020	(7,000)
2021	(7,000)
2022	(6,000)
	$ (27,000)

D. Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Locality – general employees	3.5%-5.35%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward three years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward two years, 110% of rates; females 125% of rates.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

D. Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change

E. Net GLI OPEB Liability

The net OPEB liability (NOL) for the GLI represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the GLI is as follows (expressed in thousands):

	GLI OPEB Program
Total GLI OPEB liability	$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net GLI OPEB liability	$ 1,504,840
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

G. Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by PRTC for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 14. Other Postemployment Benefits Plan – Group Life Insurance Program (Continued)

H. Sensitivity of PRTC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents PRTC's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what PRTC's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
PRTC's proportionate share of the GLI net OPEB liability	$ 910,000	$ 703,000	$ 536,000

I. GLI Fiduciary Net Position

Detailed information about the GLI's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

Note 15. Contingencies and Contractual Commitments

Fuel Contractual Commitments

PRTC entered into contracts in July, August, and November 2018 to purchase fuel at set prices for delivery in July 2018 through January 2019. The total commitment is for 462,000 gallons of fuel at approximately $1,039,800. The fuel will be used in the normal course of business and is not being purchased for resale.

Federal and State-Assisted Programs

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

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

At June 30, 2018, 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.

Note 15. Contingencies and Contractual Commitments (Continued)

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 expenses incurred as of June 30, 2018:

Stations and parking lots	$ 3,082,662
Rail rolling stock	1,390,011
Maintenance and layover yards	3,319,017
Track and signal improvements	90,486
Other administrative	315,106
Total	$ 8,197,282

Note 16. Restatement of Beginning Net Position

The following shows the change to the beginning net position from the amounts previously reported:

	Bus Service and Member Jurisdictions	Commuter Rail Service
Balance at June 30, 2017	$ 78,051,717	$ 211,818,261
Net adjustment for implementation of GASB Statement No. 75	(291,047)	(421,953)
Balance at June 30, 2017, as restated	$ 77,760,670	$ 211,396,308

Note 17. 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, 2018, annual track usage fees totaled approximately $9,888,000, of which $5,196,000 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately $571,000, of which $300,000 is recognized by the PRTC reporting entity.

Note 17. Operating Leases (Continued)

The agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day services and electrical power became effective on July 1, 2015. For the year ended June 30, 2018, costs for track access and equipment storage totaled approximately $6,628,000, of which $3,483,000 was recognized by the PRTC reporting entity. Costs for mid-day maintenance, utility, and other services totaled approximately $4,965,000, of which $2,609,000 was recognized by the PRTC reporting entity. Cost adjustments will be made in fiscal year 2019 to reflect changes to various published cost indices and the number of trains that have access to and are stored and serviced at the terminal. After October 1, 2015, charges for terminal access are determined in accordance with the cost-sharing arrangement for the Northeast Corridor passenger rail infrastructure mandated by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).

The Commissions signed a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning July 1, 2015. The cost of train operations and maintenance for the year ended June 30, 2018, based on an annual budget prepared in advance, was approximately $22,060,000, of which $11,593,000 is recognized by the PRTC reporting entity. Costs for fiscal year 2019 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

Note 18. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	$ -	$ 24,921,858	$ 24,921,858
Commuter Rail Service	(72,022)	-	(72,022)
Total transferred in	$ (72,022)	$ 24,921,858	$ 24,849,836

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

The transfer from the Bus Service and Member Jurisdictions Fund to the Commuter Rail Service Fund is for federal grant activity in which PRTC serves as grantee on behalf of VRE.

Note 19. Pending GASB Statements

At June 30, 2018, GASB had issued statements not yet implemented by PRTC. The statements which might impact PRTC are as follows:

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt,* will improve the information that is disclosed in notes related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 will be effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, will (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 will be effective for fiscal years beginning after December 15, 2018.

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

Note 20. Subsequent Events

In July 2018, VRE placed into service the L'Enfant North Storage Track, a capital improvement project. The project will be capitalized in fiscal year 2019.

In July 2018, the Commissions voted to approve a preferred design concept for the Broad Run Expansion project. While this approval has no immediate financial impact, the choice of a preferred concept will drive future decisions regarding this station location and the material costs and potential revenues related to its improvement.

In July 2018, the VRE Operations Board authorized the Chief Executive Officer to execute a Sole Source Contract with Meteorcomm LLC for five years in the amount of $3,791,213 including contingency. Meteorcomm is the sole provider of software necessary for communications between VRE locomotives/cab control cars and the host railroads' wayside and back office systems, as required for the implementation and ongoing operations of Positive Train Control (PTC).

Note 20. Subsequent Events (Continued)

In September 2018, the VRE Operations Board authorized the Chief Executive Officer to execute a contract amendment with Vanasse Hangen Brustlin, Inc. (VHB), of Vienna, VA to exercise Option B of the Engineering and Environmental Services for the Manassas Park Station Parking Expansion Project Contract, for final design, procurement support and construction administration services in the amount of $1,744,827, including contingency.

In June 2018, VRE entered into contracts to purchase diesel fuel at set prices for delivery in July and August 2018. The total commitment was for 168,000 gallons of fuel at a total cost of approximately $380,000. Similarly, in September 2018, VRE entered into contracts to purchase diesel fuel at set prices for delivery in October, November, and December 2018. The total commitment was for 252,000 gallons of fuel at a total cost of approximately $640,000. In all cases, the fuel is for use in the normal course of operations and is not being purchased for resale.

PRTC received 37 Motor Coach Industries, Inc. (MCI) 45-foot bus replacements costing $21.3 million during September and October 2018. These buses are funded by federal, state, and local sources.

In October 2018, the Commission approved a contract amendment with Clark Construction Group, LLC to include the construction of the western maintenance facility for a guaranteed maximum price of $39,960,147. Construction is anticipated to be completed in June 2020.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,				
	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	$ 528,296	$ 460,763	$ 478,465	$ 419,283	$ 413,766
Contributions in relation to the CRC	528,296	460,763	478,465	419,283	413,766
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 6,582,460	$ 7,265,941	$ 7,785,947	$ 8,627,885	$ 8,875,155
Contributions as a percentage of covered payroll	8.03%	6.34%	6.15%	4.86%	4.66%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF CHANGES IN THE NET PENSION (ASSET) LIABILITY AND RELATED RATIOS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	$ 722,134	$ 743,258	$ 778,686	$ 756,831
Interest	763,704	850,266	942,652	1,051,830
Changes of assumptions	-	-	-	(243,263)
Differences between expected and actual experience	-	92,275	284,843	38,724
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)
Net change in total pension liability	1,263,313	1,409,867	1,550,103	1,167,210
Total pension liability - beginning	11,021,316	12,284,629	13,694,496	15,244,599
Total pension liability - ending (a)	$ 12,284,629	$ 13,694,496	$ 15,244,599	$ 16,411,809
Plan Fiduciary Net Position				
Contributions - employer	$ 528,296	$ 460,763	$ 478,465	$ 419,283
Contributions - employee	414,844	494,240	375,574	407,825
Net investment income	1,697,173	603,590	259,738	1,829,732
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)
Administrative expense	(8,482)	(7,442)	(8,396)	(9,970)
Other	89	(131)	(107)	(1,654)
Net change in plan fiduciary net position	2,409,395	1,275,088	649,196	2,208,304
Plan fiduciary net position - beginning	10,379,843	12,789,238	14,064,326	14,713,522
Plan fiduciary net position - ending (b)	12,789,238	14,064,326	14,713,522	16,921,826
PRTC's net pension (asset) liability - ending (a) - (b)	$ (504,609)	$ (369,830)	$ 531,077	$ (510,017)
Plan fiduciary net position as a percentage of the total pension liability	104.11%	102.70%	96.52%	103.11%
Covered payroll	$ 6,582,460	$ 7,265,941	$ 7,785,947	$ 8,627,885
PRTC's net pension (asset) liability as a percentage of covered payroll	7.67%	5.09%	-6.82%	5.91%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, PRTC will present information for those years for which information is available.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF NET OPEB LIABILITY – GROUP LIFE INSURANCE PROGRAM

		Fiscal Year June 30, 2017
Total Group Life Insurance OPEB Liability		
The Commission's Portion of the Net GLI OPEB Liability		0.04678%
The Commission's Proportionate Share of the Net GLI OPEB Liability	$	703,000
The Commission's Covered Payroll	$	8,627,885
The Commission's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll		8.15%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF PRTC CONTRIBUTIONS – OPEB – GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	$ 20,291	$ 20,469	$ 25,277	$ 25,929	$ 34,313	$ 34,887	$ 38,509	$ 41,266	$ 44,865	$ 46,151
Contributions in relation to the CRC	20,291	20,469	25,277	25,929	34,313	34,887	38,509	41,266	44,865	46,151
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 5,636,261	$ 5,685,905	$ 5,744,800	$ 5,892,844	$ 6,474,129	$ 6,582,460	$ 7,265,941	$ 7,785,947	$ 8,627,885	$ 8,875,155
Contributions as a percentage of covered payroll	0.27%	0.27%	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.52%	0.52%

See Notes to Required Supplementary Information – OPEB

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – VIRGINIA RETIREMENT SYSTEM Year Ended June 30, 2018

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Non-Hazardous Duty

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through nine years of service
Disability Rates	Lowered rates
Salary Scale	No change

Note 3. Contractually Required Contributions

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

Methods and assumptions used to determine contribution rates:

Non-Hazardous Duty

Mortality Rates:	15% of deaths are assumed to be service related.
Pre-retirement:	RP-2014 Employee Rates at age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.
Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
Post-disablement:	RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
OTHER POSTEMPLOYMENT BENEFITS
Year Ended June 30, 2018

Note 1. Group Life Insurance Program

A. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System benefit provisions since the prior actuarial valuation.

B. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the Virginia Retirement System for the four-year period ended June 30, 2016:

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION –
BUS SERVICE AND MEMBER JURISDICTIONS
June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2018**	2017
Current Assets		
Cash and investments in bank	**$ 23,556,425**	$ 20,134,110
Receivables:		
Due from other governments	**24,137,500**	27,458,534
Due from Commuter Rail Service Fund	**1,383,417**	2,697,523
Miscellaneous	**45,979**	32,377
Prepaid expenses and other assets	**37,106**	30,202
Restricted assets:		
Cash and investments in pooled funds - member jurisdictions	**10,920,879**	9,867,464
Total current assets	**60,081,306**	60,220,210
Noncurrent Assets		
Net pension asset	**217,448**	-
Capital assets:		
Transportation equipment:		
Buses and related equipment	**77,998,888**	78,422,864
Less: accumulated depreciation	**(58,235,731)**	(55,871,839)
Transportation equipment, net	**19,763,157**	22,551,025
Land, buildings and equipment:		
Land	**6,639,270**	6,639,270
Buildings	**8,052,341**	8,052,341
Building improvements	**4,067,332**	4,056,814
Construction in progress	**3,437,331**	3,373,911
Site improvements	**1,430,513**	1,430,513
Bus shelters	**1,491,530**	1,497,616
Vehicles	**143,131**	141,987
Furniture and equipment	**2,513,229**	2,523,153
Software and easement	**3,920,724**	3,920,724
Less: accumulated depreciation and amortization	**(13,030,555)**	(11,322,155)
Land, buildings and equipment, net	**18,664,846**	20,314,174
Total capital assets, net	**38,428,003**	42,865,199
Total noncurrent assets	**38,645,451**	42,865,199
Total assets	**98,726,757**	103,085,409
Deferred Outflows of Resources		
Pension plan	**276,257**	455,857
Other postemployment benefits	**39,668**	-
Total deferred outflows of resources	**315,925**	455,857
Total assets and deferred outflows of resources	**$ 99,042,682**	$ 103,541,266

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2018	2017
Current Liabilities		
Accounts payable and other liabilities	**$ 3,666,125**	$ 3,345,062
Accrued payroll and benefits	**539,473**	574,317
Accrued interest	**15,455**	17,987
Due to other governments	**160,025**	1,870,914
Due to Commuter Rail Service Fund	**13,007,142**	16,143,280
Unearned revenue	**948,739**	966,079
Compensated absences	**40,982**	190,313
Bond payable - current portion	**230,000**	225,000
Total current liabilities	**18,607,941**	23,332,952
Noncurrent Liabilities		
Compensated absences	**464,173**	417,681
Net other postemployment benefits liability	**286,965**	-
Bond payable, net	**1,246,546**	1,519,263
Net pension liability	**-**	219,653
Total noncurrent liabilities	**1,997,684**	2,156,597
Total liabilities	**20,605,625**	25,489,549
Deferred Inflows of Resources		
Pension plan	**186,145**	-
Other postemployment benefits	**31,840**	-
Total deferred inflows of resources	**217,985**	-
Net Position		
Net investment in capital assets	**36,951,457**	41,120,936
Restricted	**15,647,935**	11,530,153
Unrestricted	**25,619,680**	25,400,628
Total net position	**78,219,072**	78,051,717
Total liabilities, deferred inflows of resources and net position	**$ 99,042,682**	$ 103,541,266

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUS SERVICE AND MEMBER JURISDICTIONS
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Motor fuel tax	**$ 23,256,152**	$ 20,516,891
Farebox	**11,224,123**	11,116,014
Advertising	**98,188**	76,196
Total operating revenues	**34,578,463**	31,709,101
Operating Expenses		
Direct transportation	**8,172,398**	11,238,624
Salaries and related benefits	**5,068,323**	5,030,897
Contractual services	**22,978,494**	22,479,512
Other services	**1,900,078**	1,773,516
Materials, supplies and minor equipment	**1,055,230**	432,894
Fuel	**2,140,501**	2,021,552
Total operating expenses	**41,315,024**	42,976,995
Operating loss before depreciation and amortization	**(6,736,561)**	(11,267,894)
Depreciation and amortization	**(6,416,523)**	(6,342,104)
Operating loss	**(13,153,084)**	(17,609,998)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	**6,983,628**	7,431,369
Federal grants	**19,405,200**	19,825,301
Investment income	**314,313**	117,015
Pass-through grants - member jurisdictions	**(140,920)**	(1,022)
Interest expense	**(21,635)**	(31,663)
Other revenue	**486,228**	1,216,218
Total nonoperating revenues, net	**27,026,814**	28,557,218
Capital Grants and Assistance		
Commonwealth of Virginia grants	**1,713,905**	3,108,838
Federal grants	**9,703,189**	15,803,238
Total capital grants and assistance	**11,417,094**	18,912,076
Income before transfers and gain on disposal of assets	**25,290,824**	29,859,296
Transfers In	**72,022**	64,171
Transfers Out	**(24,921,858)**	(31,141,670)
Transfers, net	**(24,849,836)**	(31,077,499)
Gain on Disposal of Assets	**17,414**	89,107
Change in net position	**458,402**	(1,129,096)
Net Position, beginning, as restated	**77,760,670**	79,180,813
Net Position, ending	**$ 78,219,072**	$ 78,051,717

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET POSITION –
COMMUTER RAIL SERVICE
June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2018**	2017
Current Assets		
Cash and investments in bank	**$ 26,898,426**	$ 26,398,804
Receivables:		
Due from Bus Service and Member Jurisdictions Fund	**13,007,142**	16,143,280
Trade receivables, net of allowance for doubtful accounts	**1,412,364**	1,084,619
Miscellaneous	**894,641**	598,398
Inventory	**1,728,657**	2,112,213
Prepaid expenses and other assets	**76,081**	77,740
Restricted cash, cash equivalents and investments	**5,815,291**	5,624,865
Total current assets	**49,832,602**	52,039,919
Noncurrent Assets		
Net pension asset	**292,569**	-
Capital assets:		
Transportation equipment:		
Rail rolling stock	**142,639,959**	135,474,545
Less: accumulated depreciation	**(40,967,663)**	(37,593,600)
Transportation equipment, net	**101,672,296**	97,880,945
Buildings and equipment:		
Construction in progress	**13,648,998**	11,952,082
Vehicles	**58,522**	83,711
Facilities	**52,967,852**	51,740,443
Track and signal improvements	**41,717,264**	41,742,675
Furniture, equipment and software	**8,918,939**	8,838,409
Equity in property of others	**2,893,643**	2,893,643
Less: accumulated depreciation and amortization	**(45,478,074)**	(42,029,240)
Buildings and equipment, net	**74,727,144**	75,221,723
Total capital assets, net	**176,399,440**	173,102,668
Total noncurrent assets	**176,692,009**	173,102,668
Total assets	**226,524,611**	225,142,587
Deferred Outflows of Resources		
Pension plan	**371,696**	646,262
Other postemployment benefits	**57,483**	-
Total deferred outflows of resources	**429,179**	646,262
Total assets and deferred outflows of resources	**$ 226,953,790**	$ 225,788,849

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2018	2017
Current Liabilities		
Accounts payable and other liabilities	**$ 1,335,879**	$ 941,960
Accrued expenses	**1,173,058**	1,970,218
Due to Bus Service and Member Jurisdictions Fund	**1,383,417**	2,697,523
Unearned revenue	**894,600**	987,515
Capital lease	**718,395**	687,751
Interest payable - capital lease	**43,802**	49,000
Retainage payable	**-**	291,228
Compensated absences	**41,221**	16,748
Total current liabilities	**5,590,372**	7,641,943
Noncurrent Liabilities		
Net pension liability	**-**	311,424
Net other postemployment benefits liability	**416,035**	-
Compensated absences	**281,374**	282,620
Capital lease	**5,016,206**	5,734,601
Total noncurrent liabilities	**5,713,615**	6,328,645
Total liabilities	**11,303,987**	13,970,588
Deferred Inflows of Resources		
Pension plan	**250,454**	-
Other postemployment benefits	**46,160**	-
Total deferred inflows of resources	**296,614**	-
Net Position		
Net investment in capital assets	**170,664,839**	166,680,316
Restricted for liability insurance plan	**5,268,168**	5,235,253
Restricted grants and contributions	**547,123**	389,612
Unrestricted	**38,873,059**	39,513,080
Total net position	**215,353,189**	211,818,261
Total liabilities, deferred inflows of resources and net position	**$ 226,953,790**	$ 225,788,849

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – COMMUTER RAIL SERVICE
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Passenger revenues	**$ 22,187,137**	$ 22,731,512
Equipment rental and other	**141,448**	162,162
Total operating revenues	**22,328,585**	22,893,674
Operating Expenses		
Contract operations and maintenance	**14,144,926**	13,910,697
Other operations and maintenance	**9,192,071**	7,774,833
Property leases and access fees	**8,772,404**	8,729,346
Insurance	**1,979,202**	2,134,811
Marketing and sales	**1,329,193**	1,361,404
General and administrative	**6,050,792**	5,798,664
Total operating expenses	**41,468,588**	39,709,755
Operating loss before depreciation and amortization	**(19,140,003)**	(16,816,081)
Depreciation and amortization	**(9,100,535)**	(8,868,587)
Operating loss	**(28,240,538)**	(25,684,668)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	**10,804,659**	11,743,049
Regional transportation funding	**383,293**	230,944
Investment income	**390,244**	202,973
Interest, amortization and other nonoperating expenses, net	**(282,354)**	(313,541)
Total nonoperating revenues, net	**11,295,842**	11,863,425
Capital Grants and Assistance		
Regional transportation funding	**307,595**	325,581
Contribution to NVTC	**(3,980,126)**	(16,513,758)
Total capital grants and assistance, net	**(3,672,531)**	(16,188,177)
Loss before transfers and gain (loss) on disposal of assets	**(20,617,227)**	(30,009,420)
Transfers Out	**(72,022)**	(64,171)
Transfers In	**24,921,858**	31,141,670
Transfers, net	**24,849,836**	31,077,499
Gain (Loss) on Disposal of Assets	**(275,728)**	1,750
Change in net position	**3,956,881**	1,069,829
Net Position, beginning, as restated	**211,396,308**	210,748,432
Net Position, ending	**$ 215,353,189**	$ 211,818,261

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS
Year Ended June 30, 2018

	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, 2017	$ 1,189,604	$ 243,169	$ 2,460,116	$ 2,027,496	$ 1,932,897	$ 3,676,871	$ 11,530,153
Funds Received							
Motor fuel tax	1,470,367	863,678	780,897	12,164,220	3,806,666	4,170,324	23,256,152
Transfer from PRTC (carryforward)	12,250	50,828	36,521	3,818,119	28,372	53,910	4,000,000
Other	-	160,953	-	-	-	-	160,953
Interest	19,564	2,011	33,669	26,281	19,021	48,229	148,775
Total funds received	1,502,181	1,077,470	851,087	16,008,620	3,854,059	4,272,463	27,565,880
Funds Disbursed							
Direct transportation expenses:							
VRE operating and capital	417,278	434,586	474,718	-	2,344,514	1,520,191	5,191,287
Other jurisdictional projects	1,006,547	65,000	-	-	-	1,909,564	2,981,111
Transfers to PRTC:							
Administrative	36,500	21,900	15,600	269,700	82,200	93,400	519,300
OmniRide, OmniLink, Capital Improvement, Marketing	7,000	397,300	178,600	14,139,600	15,900	18,000	14,756,400
Total funds disbursed	1,467,325	918,786	668,918	14,409,300	2,442,614	3,541,155	23,448,098
Funds Available - June 30, 2018	$ 1,224,460	$ 401,853	$ 2,642,285	$ 3,626,816	$ 3,344,342	$ 4,408,179	$ 15,647,935

Note 1 - The schedule of member jurisdictions' funds is prepared on an accrual basis and reflects the funds held by the Potomac and Rappahannock Transportation Commission (PRTC) for the benefit of the various member jurisdictions and the activity for the year ended June 30, 2018. Total funds available reconcile to amounts reported on the statement of net position as follows:

Cash and investments in pooled funds - member jurisdictions	$ 10,920,879
Due from other governments - Motor fuel tax revenue receipts (see Note 4)	4,727,056
	$ 15,647,935

Note 2 - Expenses for other jurisdictional projects consist of:

Road improvements/maintenance	$ 260,430	$ -	$ -	$ -	$ -	$ -	$ 260,430
Airport maintenance	21,000	-	-	-	-	-	21,000
Parking garage debt service, parking leases	245,117	65,000	-	-	-	-	310,117
FRED transit costs	480,000	-	-	-	-	206,337	686,337
Transportation salaries/benefits; debt service	-	-	-	-	-	1,703,227	1,703,227
	$ 1,006,547	$ 65,000	$ -	$ -	$ -	$ 1,909,564	$ 2,981,111

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2018

State Granting Agency	State Grant Number	Expenditures
Direct Payments:		
Virginia Department of Rail and Public Transportation:		
Formula Assistance	72018-28	$ 5,535,059
Ridesharing Assistance	72516-08; 71018-11; 72519-15	205,468
Transportation Intern	71217-03; 71218-05	20,945
I-95 Transit and TDM Bus Services	72018-44; 72018-45	730,037
I-395 Transit and TDM Bus Services	72518-15	44,893
Vanpool Program	72513-02; 71118-05	4,547
Technical Assistance	71317-02; 71317-12; 71317-17; 71318-06; 71318-07	118,646
Capital - FY 12	73012-93	6,743
Capital - FY 14	72514-09	7,689
Capital - FY 15	73115-02; 73115-03	3,623
Capital - FY 16	73016-94; 73016-97; 73116-04	1,323,120
Capital - FY 17	73017-85	79,405
Capital - FY 17	73017-86	25,399
Capital - FY 17	73017-87	94,928
Capital - FY 17	73017-88	582
Capital - FY 17	73017-89	78,202
Capital - FY 17	73017-92	66,442
Capital - FY 17	73017-93	4,397
Capital - FY 17	73017-94	1,533
Capital - FY 17	73017-95	1,232
Capital - FY 17	73017-97	573
Capital - FY 17	73017-98	1,018
Capital - FY 18	73018-77	22,813
Capital - FY 18	73018-78	14,900
Capital - FY 18	73018-80	8,313
Capital - FY 18	73018-81	30,800
Capital - FY 18	73018-82	74,478
Capital - FY 18	73018-83	22,100
Capital - FY 18	73018-84	8,284
Capital - FY 18	73018-85	351
		8,536,520
Northern Virginia Transportation Commission:		
Gainesville to Pentagon Bus Service		145,203
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)		15,810
Total State Awards Expended		$ 8,697,533

State funds of $184,424 from 72518-11 classified as farebox revenue on Comparative Statements of Revenues, Expenses, and Changes in Net Position for Bus Service and Member Jurisdictions

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION:				
Direct Payments:				
Federal Transit Cluster:				
VA-05-0048	20.500		$ -	$ 47,641
VA-05-0038	20.500		-	306,781
VA-05-0042	20.500		-	442,757
VA-2018-20 (Pending)	20.500		-	1,085,267
TBD	20.500		-	840,972
Federal Transit - Capital Investment Grants				2,723,418
VA-90-X401	20.507		-	132,641
VA-95-X046	20.507		-	1,389,885
VA-90-X352	20.507		-	(10,108)
VA-90-X368	20.507		-	124,142
VA-95-X126	20.507		-	7,784
VA-95-X149	20.507		-	714,327
VA-90-X435	20.507		-	306,669
VA-2017-023	20.507		-	6,543,546
VA-2017-007	20.507		-	4,045,706
VA-2018-019 (Pending)	20.507		-	162,955
VA-2018-016 (Pending)	20.507		-	4,423,877
VA-2019-XXX (Pending)	20.507		-	1,689,448
Federal Transit - Formula Grants				19,530,872
VA-2016-014	20.525		-	2,466,254
VA-2018-20 (Pending)	20.525		-	4,086,382
Federal Transit - State of Good Repair Grants Program				6,552,636
Total Federal Transit Cluster				28,806,926
Pass-through Payments:				
Metropolitan Washington Council of Governments:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	DC-2016-012-01	-	65,571
Virginia Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction (Federal Highway)	20.205	5A01(947)	-	63,236
Highway Planning and Construction (Federal Highway)	20.205	5A01(236)	-	172,656
Total Highway Planning and Construction Cluster				235,892
Total Expenditures of Federal Awards				$ 29,108,389

See Notes to Schedule of Expenditures of Federal Awards.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Note 1. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of PRTC under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PRTC, it is not intended to and does not present the financial position or changes in net position of PRTC.

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

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule.

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

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

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

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs. The following are the clusters administered by PRTC: Federal Transit Cluster and Highway Planning and Construction Cluster.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Note 3. Indirect Cost Rate

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the business-type activities and each major fund of the Potomac and Rappahannock Transportation Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
November 19, 2018

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

To the Honorable Commission Board Members
Potomac and Rappahannock Transportation Commission

Report on Compliance for Each Major Federal Program

We have audited the Potomac and Rappahannock Transportation Commission's (Commission) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2018. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
November 19, 2018

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:		
Material weaknesses identified?	____ Yes	√ No
Significant deficiencies 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 deficiencies identified?	____ Yes	√ None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? ____ Yes √ 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
20.525	Federal Transit – State of Good Repair Grants Program

Dollar threshold used to distinguish between type A and type B programs $ 873,252

Auditee qualified as low-risk auditee? √ Yes __ No

Section II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

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 audit's Summary Schedule of Prior Audit Findings.