POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of each major fund of the Potomac and Rappahannock Transportation Commission (the "Commission") as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the Commission, as of June 30, 2012, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3–9) and required supplementary information (page 37) 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.

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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

PBMares, LLP

Harrisonburg, Virginia
January 16, 2013

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, 2012. 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, 2012, PRTC's assets exceeded liabilities by $265,454,986. Of this total, $85,257,189 is for bus service and member jurisdictions and $180,197,797 is for commuter rail service.

The net assets of PRTC increased by $14,140,235 for fiscal year 2012. Of this total, $8,292,953 was from bus service and member jurisdictions and $5,847,282 was from commuter rail service.

As of June 30, 2012, PRTC's unrestricted net assets are $37,736,070. Of this total, $14,406,435 is for bus service and member jurisdictions and $23,329,635 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 Assets; Statement of Revenues, Expenses and Changes in Net Assets; Statement of Cash Flows; and notes to the financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

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

The S*tatement of Revenues, Expenses and Changes in Net Assets* presents information on revenues, expenses, and changes in PRTC's net assets. All changes in net assets are reported 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 assets 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 Taxation. The Department of Taxation collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects serving a particular jurisdiction.

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

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

FINANCIAL ANALYSIS OF THE PRTC REPORTING ENTITY AS A WHOLE

Statement of Net Assets

The following table presents a summary of the Statement of Net Assets for the PRTC reporting entity as of June 30, 2012 and 2011:

Summary of Net Assets
As of June 30,

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$ 60,111,644	$ 51,913,368	$ 33,056,086	$ 30,574,127	$ 93,167,730	$ 82,487,495
Capital assets, net	36,553,411	37,265,968	160,690,126	161,102,623	197,243,537	198,368,591
Total assets	96,665,055	89,179,336	193,746,212	191,676,750	290,411,267	280,856,086
Liabilities:						
Current liabilities	10,864,210	11,705,116	4,561,525	7,761,959	15,425,735	19,467,075
Noncurrent liabilities	543,656	509,984	8,986,890	9,564,276	9,530,546	10,074,260
Total liabilities	11,407,866	12,215,100	13,548,415	17,326,235	24,956,281	29,541,335
Net assets:						
Invested in capital assets, net	33,980,653	34,693,210	151,314,245	150,662,869	185,294,898	185,356,079
Restricted	36,870,101	27,489,706	5,553,917	5,326,609	42,424,018	32,816,315
Unrestricted	14,406,435	14,781,320	23,329,635	18,361,037	37,736,070	33,142,357
Total net assets	$ 85,257,189	$ 76,964,236	$ 180,197,797	$ 174,350,515	$ 265,454,986	$ 251,314,751

As noted earlier, net assets may serve as a useful indicator of a government's financial position. As shown above, total assets exceeded liabilities by $265,454,986, an increase of $14,140,235 over the previous fiscal year. The largest portion of net assets, $185,294,898 or 69.8%, represents the investment in net capital assets (e.g., buses, rail rolling stock, building, building improvements), less any related debt that is still outstanding. These assets are used to provide bus and rail service and consequently, are not available for future spending.

A portion of the net assets, $42,424,018 or 16.0%, represents resources that are restricted for member jurisdictions, commuter rail liability insurance plan, debt service and capital lease, and grants or contributions.

Current assets consist primarily of cash, cash equivalents, and investments; grant revenue due from the Federal Government and the Commonwealth of Virginia; and motor fuel tax revenue receivable collected on PRTC's behalf by the Commonwealth. Current assets increased $10.6 million or 12.9% from the prior year, primarily due to increased cash and investments in the member jurisdictions fuel tax accounts and increased grant receivables.

Capital assets, net of accumulated depreciation and amortization, decreased $1.1 million or 0.6%, primarily as the result of bus additions and overhauls less the sale of older rail rolling stock.

Statement of Revenues, Expenses and Changes in Net Assets

The following table shows the revenues and expenses and the change in net assets of the PRTC reporting entity for the fiscal years ended June 30, 2012 and 2011:

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

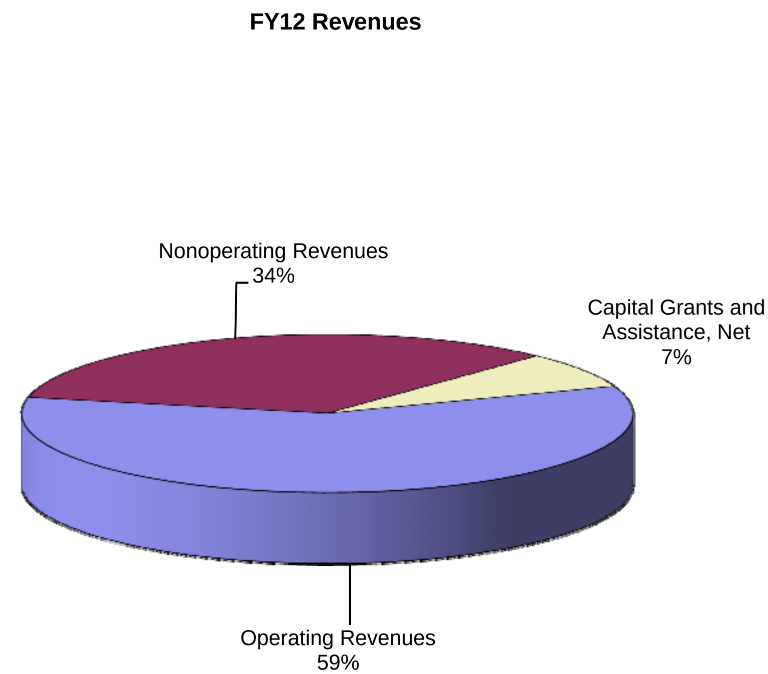
	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenues:						
Operating revenues	$ 42,137,974	$ 38,319,246	$ 21,341,015	$ 19,524,889	$ 63,478,989	$ 57,844,135
Nonoperating revenues	25,748,992	25,865,676	10,757,719	10,850,006	36,506,711	36,715,682
Capital grants & assistance, net	15,673,156	45,334,933	(7,669,092)	(21,367,116)	8,004,064	23,967,817
Transfers, net	(26,236,143)	(56,464,790)	26,236,143	56,464,790	-	-
Total revenues	57,323,979	53,055,065	50,665,785	65,472,569	107,989,764	118,527,634
Expenses:						
Operating expenses	42,059,683	42,140,388	37,503,423	34,491,092	79,563,106	76,631,480
Depreciation and amortization	6,913,761	5,843,770	6,686,564	6,109,101	13,600,325	11,952,871
Nonoperating expenses	57,582	117,031	628,516	608,261	686,098	725,292
Total expenses	49,031,026	48,101,189	44,818,503	41,208,454	93,849,529	89,309,643
Change in net assets	8,292,953	4,953,876	5,847,282	24,264,115	14,140,235	29,217,991
Net Assets, beginning	76,964,236	72,010,360	174,350,515	150,086,400	251,314,751	222,096,760
Net Assets, ending	$ 85,257,189	$ 76,964,236	$ 180,197,797	$ 174,350,515	$ 265,454,986	$ 251,314,751

For the fiscal year ended June 30, 2012, revenues totaled $108.0 million, compared to $118.5 million in the preceding year, a decrease of $10.5 million or 8.9%. Expenses increased by $4.5 million or 5.1%. A discussion of the key components of these changes follows.

Operating revenues increased $5.6 million or 9.7% from the prior year. PRTC's portion of the passenger revenues for the commuter rail service increased $1.8 million or 9.0% as a result of increased ridership. Motor fuel tax revenue increased by $3.6 million or 13.3%, a reflection of higher fuel prices.

Federal capital grant revenue decreased by $28.3 million or 64.5%, which reflects the large grant amounts drawn in fiscal year 2011 for the purchase of locomotives, as well as lower amounts of new VRE project construction. Since PRTC is the grantee for federal funds, $8.6 million was contributed to NVTC in the allocation process for fiscal year 2012 financial reporting purposes.

The following chart shows PRTC reporting entity revenues by source for the fiscal year ended June 30, 2012.



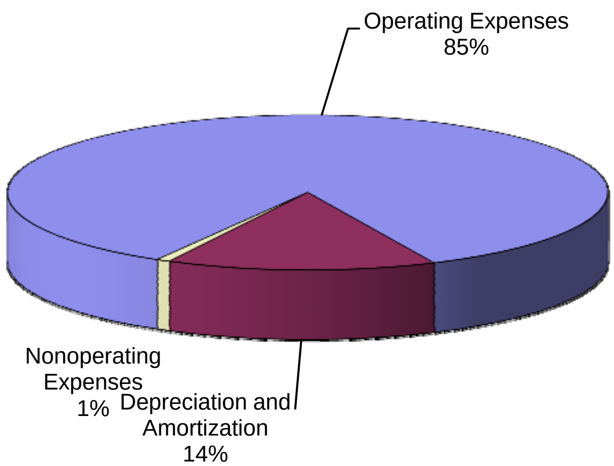
Operating expenses increased by $2.9 million or 3.8%.

For the Bus Service and Member Jurisdictions Fund, operating expenses stayed almost constant, decreasing by $0.08 million. 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 $1.2 million. Contractual services increased by $0.79 million primarily as a result of PRTC's bus operating/maintenance service contract with First Transit. The First Transit contract cost increased due to inflation and a 1.2% increase in revenue hours. Fuel increased by $0.5 million primarily because of the increase in diesel fuel prices. The average price per gallon of diesel fuel for PRTC increased from $2.47 in fiscal year 2011 to $2.95 in fiscal year 2012.

For the Commuter Rail Service Fund, the increase in operating expenses was $3.0 million or 8.7%. Property leases and access fees increased as the result of regular contractual increases, a revised contract with CSX and additional service added at the end of fiscal year 2011. Other operations and maintenance costs increased because of an increase in fuel and utilities and an increase to rolling stock repair and maintenance costs for materials and specialized repairs related to the older rolling stock and newer equipment no longer covered under warranty.

The following chart shows PRTC reporting entity expenses for the fiscal year ended June 30, 2012.

FY12 Expenses



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The details of capital assets as of June 30, 2012 and 2011 are as follows:

	Bus Service and Member Jurisdictions		Commuter Rail Service		Total	
	2012	2011	2012	2011	2012	2011
Buses and related equipment	$ 62,223,803	$ 57,349,208	$ -	$ -	$ 62,223,803	$ 57,349,208
Rail rolling stock	-	-	116,458,753	109,195,304	116,458,753	109,195,304
Furniture and equipment	461,424	435,410	-	-	461,424	435,410
Bus shelters	1,055,489	992,904	-	-	1,055,489	992,904
Building improvements	3,589,845	3,042,928	-	-	3,589,845	3,042,928
Building	8,052,341	8,052,341	-	-	8,052,341	8,052,341
Site improvements	1,435,093	1,435,093	-	-	1,435,093	1,435,093
Software and easement	835,380	600,911	-	-	835,380	600,911
Construction in progress	3,203,531	2,767,565	6,424,938	15,841,673	9,628,469	18,609,238
Vehicles	109,512	109,512	49,916	49,916	159,428	159,428
Furniture, equipment and software	-	-	7,074,474	6,076,777	7,074,474	6,076,777
Equity in local properties	-	-	2,622,399	2,622,399	2,622,399	2,622,399
Facilities	-	-	47,344,438	46,167,776	47,344,438	46,167,776
Track and signal improvements	-	-	26,342,183	26,342,183	26,342,183	26,342,183
	80,966,418	74,785,872	206,317,101	206,296,028	287,283,519	281,081,900
Less accumulated depreciation and amortization	44,413,007	37,519,904	45,626,975	45,193,405	90,039,982	82,713,309
Total capital assets, net	$ 36,553,411	$ 37,265,968	$ 160,690,126	$ 161,102,623	$ 197,243,537	$ 198,368,591

PRTC's investment in capital assets as of June 30, 2012, amounts to $197.2 million (net of accumulated depreciation and amortization), which represents a decrease of $1.1 million or 0.6%.

For bus service and member jurisdictions, six new OmniRide buses were delivered and fifteen OmniRide buses were overhauled. The new buses and the overhaul-related costs combined amounted to $4,821,869. Building improvements during the fiscal year included a new building security system and the bus storage yard gate for a total cost of $577,045.

For commuter rail service, completed projects totaling approximately $15.9 million were closed from construction in progress to their respective capital accounts and an additional $0.2 million was charged directly to the capital accounts.

The major completed commuter rail projects were: the manufacture of seven new locomotives at a total cost of $27.6 million (PRTC's portion is $13.8 million); completion of the CDS computer system for communication with the new locomotives; construction of a platform extension at the Broad Run station; construction of a "Kiss & Ride" facility at the Woodbridge station; and a number of smaller station, parking and yard lighting projects at various stations. The major additions to construction in progress during the fiscal year were for the construction of a warehouse at the Crossroads rail yard, the construction of additional parking at the Brooke and Leeland stations, and lighting improvement projects at various stations. Seven older locomotives and ten older railcars were sold during the year for a combined net loss recognized by PRTC of approximately $127,500.

Debt Administration

At June 30, 2012, the outstanding balance on two PRTC interim notes was $2,016,138 for the tax-exempt note and $556,620 for the taxable note. The notes were issued to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard at the PRTC Transit Center.

PRTC's portion of debt for the commuter rail service is $9.4 million. PRTC and NVTC are co-lessees of the capital lease for rolling stock, which is secured by the related equipment.

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Assets			
Cash and investments in bank	$ 12,320,883	$ 3,746,822	$ 16,067,705
Cash and investments in pooled funds - member jurisdictions	32,056,562	-	32,056,562
Receivables:			
Due from other governments	33,786,020	495,484	34,281,504
Trade receivables, net of allowance for doubtful accounts	-	837,636	837,636
Miscellaneous	164,049	31,531	195,580
Internal balances	(19,381,792)	19,381,792	-
Inventory	-	2,603,295	2,603,295
Prepaid expenses and other assets	244,940	295,230	540,170
Restricted assets:			
Tax free money market	920,982	-	920,982
Cash, cash equivalents and investments	-	5,573,396	5,573,396
Total current assets	60,111,644	32,965,186	93,076,830
Noncurrent Assets			
Other assets:			
Deferred lease costs, net	-	90,900	90,900
Capital assets:			
Transportation equipment:			
Buses and related equipment	62,223,803	-	62,223,803
Rail rolling stock	-	116,458,753	116,458,753
Less: accumulated depreciation	(37,821,441)	(19,099,671)	(56,921,112)
Transportation equipment, net	24,402,362	97,359,082	121,761,444
Buildings and equipment:			
Furniture and equipment	461,424	-	461,424
Bus shelters	1,055,489	-	1,055,489
Building improvements	3,589,845	-	3,589,845
Buildings	8,052,341	-	8,052,341
Site improvements	1,435,093	-	1,435,093
Software and easement	835,380	-	835,380
Construction in progress	3,203,531	6,424,938	9,628,469
Vehicles	109,512	49,916	159,428
Furniture, equipment and software	-	7,074,474	7,074,474
Equity in local properties	-	2,622,399	2,622,399
Facilities	-	47,344,438	47,344,438
Track and signal improvements	-	26,342,183	26,342,183
Less: accumulated depreciation and amortization	(6,591,566)	(26,527,304)	(33,118,870)
Buildings and equipment, net	12,151,049	63,331,044	75,482,093
Total capital assets, net	36,553,411	160,690,126	197,243,537
Total noncurrent assets	36,553,411	160,781,026	197,334,437
Total assets	$ 96,665,055	$ 193,746,212	$ 290,411,267

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Current Liabilities			
Accounts payable and other liabilities	$ 6,710,577	$ 1,525,727	$ 8,236,304
Accrued expenses	-	1,475,618	1,475,618
Accrued payroll and benefits	337,914	-	337,914
Due to other governments	663,662	-	663,662
Deferred revenue	560,424	846,357	1,406,781
Capital lease	-	541,469	541,469
Interest payable - capital lease	-	71,725	71,725
Retainage payable	9,353	82,406	91,759
Compensated absences	9,522	18,223	27,745
Liabilities payable from restricted assets:			
Interim notes payable	2,572,758	-	2,572,758
Total current liabilities	10,864,210	4,561,525	15,425,735
Noncurrent Liabilities			
Capital lease	-	8,834,412	8,834,412
Compensated absences	543,656	152,478	696,134
Total noncurrent liabilities	543,656	8,986,890	9,530,546
Total liabilities	11,407,866	13,548,415	24,956,281
Net Assets			
Invested in capital assets, net of related debt	33,980,653	151,314,245	185,294,898
Restricted	36,870,101	5,553,917	42,424,018
Unrestricted	14,406,435	23,329,635	37,736,070
Total net assets	85,257,189	180,197,797	265,454,986
Total liabilities and net assets	$ 96,665,055	$ 193,746,212	$ 290,411,267

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Operating Revenues			
Motor fuel tax revenues	$ 30,825,415	$ -	$ 30,825,415
Farebox and passenger revenues	11,162,304	21,155,677	32,317,981
Advertising revenue	150,255	-	150,255
Equipment rental and other	-	185,338	185,338
Total operating revenues	42,137,974	21,341,015	63,478,989
Operating Expenses			
Direct transportation	14,925,778	-	14,925,778
Salaries and related benefits	4,132,614	-	4,132,614
Contractual services	18,285,983	-	18,285,983
Other services	521,633	-	521,633
Materials, supplies and minor equipment	707,199	-	707,199
Fuel	3,486,476	-	3,486,476
Contract operations and maintenance	-	12,852,220	12,852,220
Other operations and maintenance	-	8,892,548	8,892,548
Property leases and access fees	-	7,995,996	7,995,996
Insurance	-	2,127,425	2,127,425
Marketing and sales	-	1,347,366	1,347,366
General and administrative	-	4,287,868	4,287,868
Total operating expenses	42,059,683	37,503,423	79,563,106
Operating income (loss) before depreciation and amortization	78,291	(16,162,408)	(16,084,117)
Depreciation and amortization	(6,913,761)	(6,686,564)	(13,600,325)
Operating loss	(6,835,470)	(22,848,972)	(29,684,442)
Nonoperating Revenues (Expenses)			
Jurisdictional contributions	-	10,746,895	10,746,895
Commonwealth of Virginia grants	4,507,578	-	4,507,578
Federal grants	20,676,682	-	20,676,682
Investment income	39,760	10,824	50,584
Pass-through grants - member jurisdictions	(1,597)	-	(1,597)
Reimbursement from member jurisdiction	363,456	-	363,456
Interest, amortization and other nonoperating expenses, net	(40,235)	(449,325)	(489,560)
Other revenue	161,516	-	161,516
Total nonoperating revenues, net	25,707,160	10,308,394	36,015,554
Capital grants and assistance			
Commonwealth of Virginia grants	947,569	-	947,569
Federal grants	14,673,789	896,692	15,570,481
Capital contributions	51,798	-	51,798
Contribution to NVTC	-	(8,578,961)	(8,578,961)
Other local contributions	-	13,177	13,177
Total capital grants and assistance, net	15,673,156	(7,669,092)	8,004,064
Income (loss) before transfers and loss on disposals	34,544,846	(20,209,670)	14,335,176
Transfers, net	(26,236,143)	26,236,143	-
Loss on disposal of assets	(15,750)	(179,191)	(194,941)
Change in net assets	8,292,953	5,847,282	14,140,235
Net Assets, beginning	76,964,236	174,350,515	251,314,751
Net Assets, ending	$ 85,257,189	$ 180,197,797	$ 265,454,986

See Notes to Financial Statements.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Cash Flows from Operating Activities			
Receipts from motor fuel tax	$ 31,454,445	$ -	$ 31,454,445
Receipts from customers	11,701,828	22,798,664	34,500,492
Receipts from advertising	150,255	-	150,255
Payments to suppliers	(23,202,429)	(34,805,817)	(58,008,246)
Payments to member jurisdictions	(16,266,975)	-	(16,266,975)
Payments to employees	(4,193,503)	(2,931,997)	(7,125,500)
Net cash used in operating activities	(356,379)	(14,939,150)	(15,295,529)
Cash Flows from Capital and Related Financing Activities			
Interest payments on interim loan	(40,235)	-	(40,235)
Interest payments on capital leases	-	(448,233)	(448,233)
Principal payments on capital leases	-	(517,445)	(517,445)
Proceeds from sale of assets	265	253,777	254,042
Deferred capital contribution	(25,000)	-	(25,000)
Escrow deposit	(200,000)	-	(200,000)
Purchase of buses and related equipment	(4,473,896)	-	(4,473,896)
Acquisition of capital assets	(1,132,959)	(8,878,920)	(10,011,879)
Net cash used in capital and related financing activities	(5,871,825)	(9,590,821)	(15,462,646)
Cash Flows from Noncapital Financing Activities			
Federal and state grants commuter bus and rail services	33,224,389	-	33,224,389
Governmental subsidies	-	11,189,071	11,189,071
Interfund transfers	(20,978,412)	20,978,412	-
Payments for jurisdiction grant - related expenditures	(1,597)	(9,550,904)	(9,552,501)
Net cash provided by noncapital financing activities	12,244,380	22,616,579	34,860,959
Cash Flows From Investing Activities			
Investment income	39,760	10,965	50,725
Other revenues	593,247	-	593,247
Net cash provided by investing activities	633,007	10,965	643,972
Increase (decrease) in cash and cash equivalents	6,649,183	(1,902,427)	4,746,756
Cash and Cash Equivalents			
Beginning	37,728,262	11,222,645	48,950,907
Ending	$ 44,377,445	$ 9,320,218	$ 53,697,663

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	$ (6,835,470)	$ (22,848,972)	$ (29,684,442)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	6,913,761	6,686,564	13,600,325
Loss on disposal of assets	-	101,523	101,523
Changes in assets and liabilities:			
(Increase) decrease in:			
Due from other governments	715,977	-	715,977
Internal balances	259,013	(259,013)	-
Miscellaneous receivables	(53,964)	(1,867)	(55,831)
Prepaid expenses and other assets	(14,668)	(11,514)	(26,182)
Trade receivables	-	1,410,373	1,410,373
Inventory	-	202,499	202,499
Increase (decrease) in:			
Accounts payable and other liabilities	(186,470)	(267,886)	(454,356)
Accrued payroll and benefits	(60,889)	-	(60,889)
Due to other governments	(1,341,197)	-	(1,341,197)
Deferred revenue	247,528	49,143	296,671
Net cash used in operating activities	$ (356,379)	$ (14,939,150)	$ (15,295,529)
Schedule of Noncash Capital Activities:			
Capital assets acquired through capital contributions	$ 51,798	$ 6,589	$ 58,387
Buses and related equipment acquired through accounts payable	1,952,554	-	1,952,554
Capital assets acquired through accounts payable	471,695	587,305	1,059,000
Captial assets acquired through interim note financing	197,533	-	197,533
Capital assets acquired through retainage payable	6,010	-	6,010
Capital assets acquired through notes payable	-	907,320	907,320
Capital assets acquired through accrued expenses	-	275,730	275,730

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
Manassas	1	1
Manassas Park	1	1
Fredericksburg	1	1
Commonwealth House of Delegates	2	1
ommonwealth 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.

Note 1. Organization (Continued)

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 Taxation. The Department of Taxation collects the tax and remits funds to PRTC monthly, after deducting its administrative costs. These funds are separately maintained by PRTC for the benefit of each member jurisdiction and are used to pay administrative costs of PRTC and transportation projects serving a particular jurisdiction.

Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

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

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

PRTC reports the following major enterprise funds:

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

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

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

Cash and investments in pooled funds, member jurisdictions: Cash and investments in pooled funds represent PRTC's share of the pooled cash and investments held by the 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 investment in the LGIP (a 2a7-like pool) is reported at the pool's share price.

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 assets consist of funds invested in a Virginia Tax Free Institutional Fund in accordance with the applicable interim notes covenants. Funds totaling $2,838,500 were initially received from the PRTC bus sponsoring jurisdictions for several capital related activities. Subsequently, those activities are being funded by the interim notes, and the $2,838,500 was reprogrammed for other operating and capital expenses. As of June 30, 2012, the balance in this tax free fund was $920,982.

Restricted cash, cash equivalents and investments of $5,573,396 at June 30, 2012 are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, proceeds from the sale of rolling stock, and a small liability claims account.

Allowance for uncollectible accounts: The allowance for uncollectible accounts is calculated by using historical collection data and specific account analysis. The allowance was $106,140 at June 30, 2012.

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Compensated absences: Employees are granted annual and sick leave based on years of service. Employees with less than ten years of service may carry over a total of 225 hours of leave from year to year, while those with more than ten years may carry over 300 hours. Excess leave may convert to sick leave or may be paid out with the approval of the 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.

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

Note 2. Summary of Significant Accounting Policies (Continued)

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, investment income, and reimbursement from member jurisdictions.

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.

Long-term obligations: Deferred lease costs are amortized over the life of the capital lease using the straight-line method.

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

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

Note 3. Cash and Investments

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

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

Note 3. Cash and Investments (Continued)

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

The Commonwealth of Virginia Department of 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, 2012, PRTC had $5,078,246 invested in the Insurance Trust.

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

As of June 30, 2012, 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
Money Market	$ 12,547,000	$ -	$ 12,547,000	$ 12,547,000	$ 12,547,000
LGIP	32,056,562	3,379,175	35,435,737	35,435,737	35,435,737
	44,603,562	3,379,175	47,982,737	47,982,737	47,982,737
Restricted:					
Tax free money market	920,982	-	920,982	920,982	920,982
Insurance trust fund - pooled funds	-	5,078,246	5,078,246	5,078,246	5,078,246
LGIP	-	495,150	495,150	495,150	495,150
	920,982	5,573,396	6,494,378	6,494,378	6,494,378
Total	$ 45,524,544	$ 8,952,571	$ 54,477,115	$ 54,477,115	$ 54,477,115

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

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

Diversification

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

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

2. 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

Note 3. Cash and Investments (Continued)

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.

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

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

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

	Bus Service and Member Jurisdictions
Stafford County	$ 5,900,532
Prince William County	11,954,579
City of Manassas	2,186,809
City of Manassas Park	2,704,440
City of Fredericksburg	4,818,294
Spotsylvania County	4,491,908
	$ 32,056,562

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Virginia Department of Taxation - motor fuel tax receipts	$ 5,322,154	$ -	$ 5,322,154
Virginia Department of Rail and Public Transportation	1,272,578	-	1,272,578
Federal Transit Administration	23,591,647	-	23,591,647
Department of Homeland Security	-	495,484	495,484
Washington Metropolitan Area Transit Authority; Maryland Transit Administration	697,031	-	697,031
Metropolitan Washington Council of Governments	2,764,421	-	2,764,421
Virginia Department of Transportation	108,755	-	108,755
Prince William County	28,977	-	28,977
City of Manassas	292	-	292
Commonwealth of Virginia, Department of the Blind	75	-	75
City of Manassas Park	90	-	90
	$ 33,786,020	$ 495,484	$ 34,281,504

Amounts due to other governments are as follows:

	Bus Service and Member Jurisdictions
City of Manassas	$ 662,065
City of Manassas Park	1,597
	$ 663,662

Note 5. Capital Assets

Changes in capital assets for the year ended June 30, 2012 are as follows:

	Balance June 30, 2011	Increases	Reclassifications/ Decreases	Balance June 30, 2012
Capital assets not being depreciated or amortized:				
Construction in progress	$ 18,609,238	$ 7,394,543	$ (16,375,312)	$ 9,628,469
Capital assets being depreciated and amortized:				
Buses and related equipment	57,349,208	4,874,595	-	62,223,803
Rail rolling stock	109,195,304	-	7,263,449	116,458,753
Furniture and equipment	435,410	26,014	-	461,424
Bus shelters	992,904	34,098	28,487	1,055,489
Building improvements	3,042,928	352,154	194,763	3,589,845
Buildings	8,052,341	-	-	8,052,341
Site improvements	1,435,093	-	-	1,435,093
Software and easement	600,911	30,852	203,617	835,380
Vehicles	159,428	-	-	159,428
Furniture, equipment and software	6,076,777	165,308	832,389	7,074,474
Equity in local properties	2,622,399	-	-	2,622,399
Facilities	46,167,776	-	1,176,662	47,344,438
Track and signal improvements	26,342,183	-	-	26,342,183
Total capital assets being depreciated and amortized	262,472,662	5,483,021	9,699,367	277,655,050
Less accumulated depreciation and amortization for:				
Buses and related equipment	31,815,258	6,006,183	-	37,821,441
Rail rolling stock	21,377,890	3,974,776	(6,252,995)	19,099,671
Furniture and equipment	324,233	49,601	-	373,834
Bus shelters	505,450	162,672	-	668,122
Building improvements	682,243	224,420	(20,657)	886,006
Buildings	3,621,900	268,512	-	3,890,412
Site improvements	119,632	79,666	-	199,298
Software and easement	378,889	109,175	-	488,064
Vehicles	97,862	21,033	-	118,895
Furniture, equipment and software	4,889,493	402,854	-	5,292,347
Equity in local properties	1,323,675	74,926	-	1,398,601
Facilities	10,439,238	1,330,655	-	11,769,893
Track and signal improvements	7,137,546	895,852	-	8,033,398
Total accumulated depreciation and amortization	82,713,309	13,600,325	(6,273,652)	90,039,982
Total capital assets being depreciated and amortized, net	179,759,353	(8,117,304)	15,973,019	187,615,068
Totals	$ 198,368,591	$ (722,761)	$ (402,293)	$ 197,243,537

Note 6. Long-Term Liabilities

PRTC obtained two interim notes during July 2010 (refinancing of notes issued in July 2007) for $4,200,000 to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard. The outstanding balance was $2,016,138 for the tax-exempt note and $556,620 for the taxable note at June 30, 2012. The effective interest rates were 1.36% and 1.94%, respectively, at June 30, 2012.

Subsequent to year end, in December 2012, the two interim notes were repaid with proceeds from the issuance of the Commission's Revenue Bond, series 2012. Proceeds from the issuance were also used to fund certain local costs of issuance and to finance the construction of an evacuation and emergency exit gate at the bus storage yard.

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 $21,932,339 (PRTC reporting entity, $10,966,170)	$ 18,751,762	$ 9,375,881

Future minimum lease payments as of June 30, 2012 are as follows:

Years Ending June 30,	Total	PRTC Reporting Entity
2013	$ 1,931,357	$ 965,679
2014	1,931,357	965,679
2015	1,931,357	965,679
2016	1,931,357	965,679
2017	1,931,357	965,679
2018-2022	9,656,785	4,828,393
2023-2026	5,794,071	2,897,034
Total minimum lease payments	25,107,641	12,553,822
Lease amount representing interest	6,355,879	3,177,941
Present value of lease payments	$ 18,751,762	$ 9,375,881

Note 7. Net Assets

Restricted net assets represent net assets that are subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net assets as of June 30, 2012:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Member jurisdictions	$ 36,870,101	$ -	$ 36,870,101
Insurance trust fund	-	5,078,246	5,078,246
Grants and contributions	-	475,671	475,671
	$ 36,870,101	$ 5,553,917	$ 42,424,018

Unrestricted net assets consist of the following as of June 30, 2012:

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total
Designation of unrestricted net assets:			
Carry forward to support next year budget	$ 2,732,400	$ -	$ 2,732,400
Local match for state grants	2,130,693	-	2,130,693
Local funding for capital projects (non grant related)	22,015	-	22,015
Total designations	4,885,108	-	4,885,108
Undesignated unrestricted net assets	9,521,327	23,329,635	32,850,962
Total unrestricted net assets	$ 14,406,435	$ 23,329,635	$ 37,736,070

Note 8. Joint Venture - Virginia Railway Express

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

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

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

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

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

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, a lease financing, Federal and Commonwealth of Virginia grants, and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania, and Stafford; and the cities of Manassas, Manassas Park, and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. The VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction, effective February 15, 2010. Spotsylvania County's share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2012 has been deferred until 60 days after the beginning of fiscal year 2013.

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 2012 audited financial statements is shown below.

VIRGINIA RAILWAY EXPRESS
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	
Current Assets	
Cash and cash equivalents	$ 6,149,443
Accounts receivable:	
Due from PRTC – funded by FTA	20,453,692
Commonwealth of Virginia grants	3,631,920
Trade and other, net of allowance	1,473,492
Inventory	4,272,638
Prepaid expenses and other	484,544
Restricted cash, cash equivalent, and investments	17,555,259
Total current assets	54,020,988
Noncurrent Assets	
Deferred bond and lease costs, net	1,331,037
Capital assets (net of $91,253,950 accumulated depreciation and amortization)	321,380,255
Total noncurrent assets	322,711,292
Total assets	$ 376,732,280
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued liabilities	$ 6,665,478
Unearned revenue	1,389,077
Contract retainage	164,813
Current portion of:	
Capital lease obligations	1,082,937
Long-term debt	5,910,000
Notes payable	1,873,893
Total current liabilities	17,086,198
Noncurrent Liabilities	
Capital lease obligations	17,668,825
Notes payable	61,855,766
Bonds payable, net	12,592,444
Compensated absences	250,253
Total noncurrent liabilities	92,367,288
Total liabilities	109,453,486
Net Assets	
Invested in capital assets, net of related debt	220,396,390
Restricted for liability insurance plan	10,156,492
Restricted for debt service and capital lease	6,408,466
Restricted grants or contributions	951,342
Unrestricted assets	29,366,104
Total net assets	267,278,794
Total liabilities and net assets	$ 376,732,280

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

VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

Operating revenues	$ 35,025,775
Operating expenses	61,626,644
Operating loss before depreciation and amortization	(26,600,869)
Depreciation and amortization	(13,373,129)
Operating loss	(39,973,998)
Nonoperating revenues (expenses):	
Subsidies:	
Commonwealth of Virginia grants	12,711,602
Federal grants – with PRTC as grantee	17,181,121
Jurisdictional contributions	15,943,917
Interest income:	
Operating funds	16,813
Other restricted funds	1,161
Loss on disposal of assets	(358,382)
Interest, amortization and other nonoperating expenses, net	(5,215,017)
Total nonoperating revenues, net	40,281,215
Capital grants and assistance:	
Commonwealth of Virginia grants	2,027,872
Federal grants – with PRTC as grantee	9,997,070
Other local contributions	46,924
Total capital grants and assistance	12,071,866
Change in net assets	12,379,083
Net assets, beginning	254,899,711
Net assets, ending	$ 267,278,794

Note 9. Revenue from Member Jurisdictions

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

Note 10. Direct Transportation Expenses

In addition to PRTC administrative costs, the member jurisdictions authorize disbursements from their respective 2.1% motor fuel tax revenues for transportation projects operating or originating within their jurisdiction. During the year ended June 30, 2012, amounts expended for joint and jurisdictional transportation projects consisted of:

	Bus Service and Member Jurisdictions
VRE support	$ 10,746,895
Other jurisdictional projects	4,178,883
	$ 14,925,778

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

Note 11. Risk Management and Liability Insurance Plan

PRTC and the VRE commuter rail operation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to address these risks, including workers' compensation and employee health and accidental insurance. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to $250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately $240,000 at June 30, 2012, of which $120,000 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 11. Risk Management and Liability Insurance Plan (Continued)

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2011, all plan assets have been invested in the Department of Treasury common pool. Prior to that time, approximately one-half of plan assets were invested in the common pool, and the remainder was invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the year ended June 30, 2012 was as follows:

	Total	PRTC Reporting Entity
Beginning balance, July 1	$ 10,052,968	$ 5,026,484
Contribution to reserves	3,619,260	1,809,630
Insurance premiums paid	(3,459,693)	(1,729,846)
Claims mitigation costs and losses incurred	(3,558)	(1,779)
Actuarial and administrative charges	(52,485)	(26,243)
Ending balance, June 30	$ 10,156,492	$ 5,078,246

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

Note 12. Related Party Transactions

For the year ended June 30, 2012, expenses incurred for legal services provided by Prince William County were $39,000.

Note 13. Deferred Compensation Benefits

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

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

PRTC contributions to the deferred compensation plan for the year ended June 30, 2012 were $18,625.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the year ended June 30, 2012 were $38,416.

Note 14. Defined Benefit Pension Plan

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

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

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

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

The System issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2011-Annual-Report.pdf or by writing to the system's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 14. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute five percent of their compensation toward their retirement. All or part of the five percent member contribution may be assumed by the employer. In addition, PRTC is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. PRTC's contribution rate for the fiscal year ended June 30, 2012 was 10.92 percent of annual covered payroll, inclusive of the five percent member contribution, and PRTC also contributed 0.28 percent for group life insurance.

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2012, 2011, and 2010 was as follows:

	2012	2011	2010
Bus Service and Member Jurisdictions	$ 2,740,101	$ 2,677,361	$ 2,649,083
Commuter Rail Service	3,151,446	3,060,302	3,023,072

Total payroll for the years ended June 30, 2012, 2011, and 2010 was as follows:

	2012	2011	2010
Bus Service and Member Jurisdictions	$ 3,064,189	$ 2,965,639	$ 2,916,320
Commuter Rail Service	3,358,745	3,142,184	3,085,634

C. Annual Pension Cost

For fiscal year 2012, PRTC's annual pension cost of $643,357 was equal to the required and actual contributions.

Three-Year Trend Information for PRTC

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 651,731	100.0%	$ -
June 30, 2011	626,553	100.0%	-
June 30, 2012	643,357	100.0%	-

Note 14. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

The fiscal year 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50 percent, (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50 percent per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the PRTC's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five year period. PRTC's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

As of June 30, 2011, the most recent actuarial valuation date, the plan was 84.66 percent funded. The actuarial accrued liability for benefits was $9,730,413 and the actuarial value of assets was $8,237,980, resulting in an unfunded actuarial accrued liability (UAAL) of $1,492,433. The covered payroll (annual payroll of active employees covered by the plan) was $5,751,116 and the ratio of the UAAL to the covered payroll was 25.95 percent.

The only other postemployment benefits offered by PRTC are COBRA payments, which have been determined to be immaterial to the financial statements.

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

Note 15. Contingencies and Contractual Commitments

Fuel Contractual Commitments

As of June 30, 2012, PRTC entered into contracts at various times in September 2011 through June 2012 to purchase fuel at set prices for delivery in July 2012 through June 2013. The total commitment is for 966,000 gallons of fuel at approximately $2.8 million. The fuel will be used in the normal course of business and is not being purchased for resale.

Federal and State-Assisted Programs

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

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

Note 15. Contingencies and Contractual Commitments (Continued)

At June 30, 2012, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal (with PRTC as grantee) and Commonwealth of Virginia grants (with NVTC-VRE as grantee) and local funds will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenditures incurred as of June 30, 2012:

Stations and parking lots	$ 4,235,066
Rail rolling stock	22,226,007
Maintenance and layover yards	653,327
Track and signal improvements	611,459
Other administrative	302,331
Total	$ 28,028,190

At the end of fiscal year 2012, VRE was holding the proceeds of the sale of older equipment in the amount of $951,342 in a restricted account, to be used for the purchase of replacement rolling stock, of which $475,671 is included in the PRTC reporting entity.

Note 16. Operating Leases

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the year ended June 30, 2012, annual track usage fees totaled approximately $7,645,000, of which $4,663,450 is recognized by the PRTC reporting entity, and facility and other identified costs totaled approximately $450,000, of which $274,500 is recognized by the PRTC reporting entity.

The new agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on June 28, 2010. Actual cost for the year ended June 30, 2012 was approximately $9,185,000, of which $5,602,850 was recognized by the PRTC reporting entity. Costs in future years will be adjusted based on changes to various published costs indices and the number of trains that have access to and are stored and serviced at the terminal.

Note 16. Operating Leases (Continued)

During fiscal year 2011, the Commissions entered into a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. The actual cost of train operations and maintenance for the year ended June 30, 2012, based on an annual budget prepared in advance, was approximately $17,474,000 including a small amount for the completion of mobilization services, of which $10,659,140 is recognized by the PRTC reporting entity. Costs in future years will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

VRE has entered into a series of operating leases with Titan Transit for locomotives. For the year ended June 30, 2012, lease costs totaled approximately $74,000, of which $45,140 is recognized by the PRTC reporting entity. These leases terminated during fiscal year 2012.

Note 17. Interfund Transfers

	Bus Service and Member Jurisdictions	Commuter Rail Service	Total Transferred Out
Transfer from fund:			
Bus Service and Member Jurisdictions	$ -	$ 26,281,499	$ 26,281,499
Commuter Rail Service	(45,356)	-	(45,356)
Total transferred in	$ (45,356)	$ 26,281,499	$ 26,236,143

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 18. Pending GASB Statements

At June 30, 2012, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the PRTC reporting entity. The statements which might impact PRTC are as follows:

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

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Statement No. 65 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012,* will improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Statement No. 66 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

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

Note 19. Subsequent Events

PRTC entered into contracts during December 2012 to purchase fuel at set prices for delivery in July 2013 through August 2013. The total commitment is for 84,000 gallons of fuel at approximately $245,000. The fuel will be used in the normal course of business and is not being purchased for resale.

On September 6, 2012 the Commissions authorized the sale of two GP-40 locomotives to Goodloe Leasing LLC for a total amount of $140,000 and the Purchase Agreement was signed the following day. In addition, locomotive spare parts for the GP-40 and other older locomotives were sold to Goodloe Leasing in July 2012 for $100,000.

The Commissions entered into contracts for the VRE joint venture at various times from April 2012 through June 2012 to purchase fuel at set prices for delivery in July 2012 through June 2013. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 1,008,000 gallons of fuel at a cost of approximately $3.1 million.

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF FUNDING PROGRESS - VRS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2011	$ 8,237,980	$ 9,730,413	$ 1,492,433	84.66%	$ 5,751,116	25.95%
June 30, 2010	7,503,689	8,539,776	1,036,087	87.87%	5,733,383	18.07%
June 30, 2009	6,809,891	6,996,387	186,496	97.33%	5,743,627	3.25%

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET ASSETS - BUS SERVICE AND MEMBER JURISDICTIONS
June 30, 2012 and 2011

ASSETS	**2012**	2011
Current Assets		
Cash and investments in bank	**$ 12,320,883**	$ 14,200,646
Cash and investments in pooled funds - member jurisdictions	**32,056,562**	23,527,616
Receivables:		
Due from other governments	**33,786,020**	26,943,550
Due from Commuter Rail Service Fund	**576,416**	835,429
Miscellaneous	**164,049**	110,085
Prepaid expenses and other assets	**244,940**	30,272
Restricted assets:		
Tax free money market	**920,982**	920,891
Total current assets	**80,069,852**	66,568,489
Capital assets:		
Transportation equipment:		
Buses and related equipment	**62,223,803**	57,349,208
Less: accumulated depreciation	**(37,821,441)**	(31,815,258)
Transportation equipment, net	**24,402,362**	25,533,950
Buildings and equipment:		
Furniture and equipment	**461,424**	435,410
Bus shelters	**1,055,489**	992,904
Building improvements	**3,589,845**	3,042,928
Buildings	**8,052,341**	8,052,341
Site improvements	**1,435,093**	1,435,093
Software and easement	**835,380**	600,911
Construction in progress	**3,203,531**	2,767,565
Vehicles	**109,512**	109,512
Less: accumulated depreciation and amortization	**(6,591,566)**	(5,704,646)
Buildings and equipment, net	**12,151,049**	11,732,018
Total capital assets, net	**36,553,411**	37,265,968
Total noncurrent assets	**36,553,411**	37,265,968
Total assets	**$ 116,623,263**	$ 103,834,457

LIABILITIES AND NET ASSETS	**2012**	2011
Current Liabilities		
Accounts payable and other liabilities	**$ 6,710,577**	$ 6,341,596
Accrued payroll and benefits	**337,914**	432,185
Due to other governments	**663,662**	2,004,859
Due to Commuter Rail Service Fund	**19,958,208**	14,655,121
Deferred revenue	**560,424**	337,896
Compensated absences	**9,522**	9,812
Retainage payable	**9,353**	6,010
Liabilities payable from restricted assets:		
Interim notes payable	**2,572,758**	2,572,758
Total current liabilities	**30,822,418**	26,360,237
Noncurrent Liabilities		
Compensated absences	**543,656**	509,984
Total noncurrent liabilities	**543,656**	509,984
Total liabilities	**31,366,074**	26,870,221
Net Assets		
Invested in capital assets, net of related debt	**33,980,653**	34,693,210
Restricted	**36,870,101**	27,489,706
Unrestricted	**14,406,435**	14,781,320
Total net assets	**85,257,189**	76,964,236
Total liabilities and net assets	**$ 116,623,263**	$ 103,834,457

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUS SERVICE AND MEMBER JURISDICTIONS

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Motor fuel tax revenues	**$ 30,825,415**	$ 27,197,946
Farebox revenues	**11,162,304**	10,961,497
Advertising revenue	**150,255**	159,803
Total operating revenues	**42,137,974**	38,319,246
Operating Expenses		
Direct transportation	**14,925,778**	16,172,866
Salaries and related benefits	**4,132,614**	4,002,411
Contractual services	**18,285,983**	17,498,115
Other services	**521,633**	578,367
Materials, supplies and minor equipment	**707,199**	912,844
Fuel	**3,486,476**	2,975,785
Total operating expenses	**42,059,683**	42,140,388
Operating income (loss) before depreciation and amortization	**78,291**	(3,821,142)
Depreciation and amortization	**(6,913,761)**	(5,843,770)
Operating loss	**(6,835,470)**	(9,664,912)
Nonoperating Revenues (Expenses)		
Commonwealth of Virginia grants	**4,507,578**	5,276,487
Federal grants	**20,676,682**	19,895,670
Direct financing lease interest income	**-**	38,410
Investment income	**39,760**	37,411
Pass-through grants - member jurisdictions	**(1,597)**	(1,568)
Reimbursement from member jurisdiction	**363,456**	370,348
Interest expense	**(40,235)**	(90,548)
Other revenue	**161,516**	214,698
Total nonoperating revenues, net	**25,707,160**	25,740,908
Capital grants and assistance		
Commonwealth of Virginia grants	**947,569**	1,470,460
Federal grants	**14,673,789**	43,878,142
Capital contributions	**51,798**	18,983
Total capital grants and assistance	**15,673,156**	45,367,585
Income before transfers and loss on disposals	**34,544,846**	61,443,581
Transfers in	**45,356**	57,898
Transfers out	**(26,281,499)**	(56,522,688)
Transfers, net	**(26,236,143)**	(56,464,790)
Loss on disposal of assets	**(15,750)**	(24,915)
Change in net assets	**8,292,953**	4,953,876
Net Assets, beginning	**76,964,236**	72,010,360
Net Assets, ending	**$ 85,257,189**	$ 76,964,236

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF NET ASSETS - COMMUTER RAIL SERVICE
June 30, 2012 and 2011

ASSETS	**2012**	2011
Current Assets		
Cash and investments in bank	**$ 3,746,822**	$ 5,948,141
Receivables:		
Due from other governments	**495,484**	121,412
Due from Bus Service and Member Jurisdictions Fund	**19,958,208**	14,533,709
Trade receivables, net of allowance for doubtful accounts	**837,636**	2,211,901
Miscellaneous	**31,531**	117,827
Inventory	**2,603,295**	2,826,954
Prepaid expenses and other assets	**295,230**	279,159
Restricted cash, cash equivalents and investments	**5,573,396**	5,274,504
Total current assets	**33,541,602**	31,313,607
Noncurrent Assets		
Other assets:		
Deferred bond and lease costs, net	**90,900**	95,949
Capital assets:		
Transportation equipment:		
Rail rolling stock	**116,458,753**	109,195,304
Less: accumulated depreciation	**(19,099,671)**	(21,377,890)
Transportation equipment, net	**97,359,082**	87,817,414
Buildings and equipment:		
Construction in progress	**6,424,938**	15,841,673
Vehicles	**49,916**	49,916
Furniture, equipment and software	**7,074,474**	6,076,777
Equity in local properties	**2,622,399**	2,622,399
Facilities	**47,344,438**	46,167,776
Track and signal improvements	**26,342,183**	26,342,183
Less: accumulated depreciation and amortization	**(26,527,304)**	(23,815,515)
Buildings and equipment, net	**63,331,044**	73,285,209
Total capital assets, net	**160,690,126**	161,102,623
Total noncurrent assets	**160,781,026**	161,198,572
Total assets	**$ 194,322,628**	$ 192,512,179

LIABILITIES AND NET ASSETS	**2012**	2011
Current Liabilities		
Accounts payable and other liabilities	**$ 1,525,727**	$ 1,552,457
Accounts payable - rolling stock	**-**	546,428
Accrued expenses	**1,475,618**	2,457,652
Due to Bus Service and Member Jurisdictions Fund	**576,416**	835,429
Deferred revenue	**846,357**	775,270
Capital lease	**541,469**	517,445
Interest payable - capital lease	**71,725**	75,684
Retainage payable	**82,406**	1,835,370
Compensated absences	**18,223**	1,653
Total current liabilities	**5,137,941**	8,597,388
Noncurrent Liabilities		
Capital lease	**8,834,412**	9,375,881
Compensated absences	**152,478**	188,395
Total noncurrent liabilities	**8,986,890**	9,564,276
Total liabilities	**14,124,831**	18,161,664
Net Assets		
Invested in capital assets, net of related debt	**151,314,245**	150,662,869
Restricted for liability insurance plan	**5,078,246**	5,026,484
Restricted grants and contributions	**475,671**	300,125
Unrestricted	**23,329,635**	18,361,037
Total net assets	**180,197,797**	174,350,515
Total liabilities and net assets	**$ 194,322,628**	$ 192,512,179

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - COMMUTER RAIL SERVICE
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Passenager revenues	$ 21,155,677	$ 19,404,946
Equipment rental and other	185,338	119,943
Total operating revenues	21,341,015	19,524,889
Operating Expenses		
Contract operations and maintenance	12,852,220	12,833,025
Other operations and maintenance	8,892,548	7,763,121
Property leases and access fees	7,995,996	7,048,134
Insurance	2,127,425	2,427,951
Marketing and sales	1,347,366	900,721
General and administrative	4,287,868	3,518,140
Total operating expenses	37,503,423	34,491,092
Operating loss before depreciation and amortization	(16,162,408)	(14,966,203)
Depreciation and amortization	(6,686,564)	(6,109,101)
Operating loss	(22,848,972)	(21,075,304)
Nonoperating Revenues (Expenses)		
Jurisdictional contributions	10,746,895	10,841,016
Investment income	10,824	8,990
Interest, amortization and other nonoperating expenses, net	(449,325)	(472,458)
Total nonoperating revenues, net	10,308,394	10,377,548
Capital grants and assistance		
Commonwealth of Virginia grants	-	8,607
Federal grants - NVTC and other	896,692	8,513
Contribution to NVTC	(8,578,961)	(21,757,117)
Other local contributions	13,177	372,881
Total capital grants and assistance, net	(7,669,092)	(21,367,116)
Loss before transfers and loss on disposals	(20,209,670)	(32,064,872)
Transfers out	(45,356)	(57,898)
Transfers in	26,281,499	56,522,688
Transfers, net	26,236,143	56,464,790
Loss on disposal of assets	(179,191)	(135,803)
Change in net assets	5,847,282	24,264,115
Net Assets, beginning	174,350,515	150,086,400
Net Assets, ending	$ 180,197,797	$ 174,350,515

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS
Year Ended June 30, 2012

	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, 2011	$ 4,602,889	$ 2,473,104	$ 2,564,380	$ 10,154,583	$ 5,494,523	$ 2,200,227	$ 27,489,706
Funds Received:							
Motor fuel tax	1,477,311	952,866	1,124,483	17,043,061	5,345,841	4,881,853	30,825,415
Transfer from operating accounts (carryforward)	5,948	30,964	19,940	3,220,232	17,038	5,878	3,300,000
Other	-	153,450	-	363,456	-	-	516,906
Interest	6,898	3,152	3,634	11,830	7,653	5,280	38,447
Total funds received	1,490,157	1,140,432	1,148,057	20,638,579	5,370,532	4,893,011	34,680,768
Funds Disbursed:							
Direct transportation expenses:							
Commuter Rail Service Fund capital support	420,566	817,993	566,504	5,859,007	2,505,805	577,020	10,746,895
Other projects	510,613	974,868	-	-	1,479,262	1,214,140	4,178,883
Transfers to operating accounts:							
Administrative expenses	22,600	23,900	14,700	192,400	60,500	29,800	343,900
OmniRide, OmniLink, Capital Improvement, Marketing	-	213,900	160,400	9,656,395	-	-	10,030,695
Total funds disbursed	953,779	2,030,661	741,604	15,707,802	4,045,567	1,820,960	25,300,373
Funds Available - June 30, 2012	$ 5,139,267	$ 1,582,875	$ 2,970,833	$ 15,085,360	$ 6,819,488	$ 5,272,278	$ 36,870,101

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, 2012. Total funds available reconcile to amounts reported on the statement of net assets as follows:

Cash and investments in pooled funds - member jurisdictions	$	32,056,562
Due from other governments - Motor fuel tax revenue receipts (see Note 4 of financial statements)		5,322,154
Due from other governments - DRPT		153,450
Due to other governments - member jurisdictions		(662,065)
	$	36,870,101

Note 2 - Expenses for other jurisdictional projects consist of:

	City of Fredericksburg	City of Manassas	County of Stafford	County of Spotsylvania	Total
Road improvements/maintenance, sidewalks	$ 74,059	$ 528,630	$ 410,745	$ 25,000	$ 1,038,434
Street equipment warehouse, parking system	-	156,215	-	-	156,215
School bus	73,937	-	-	-	73,937
Street signs, human services transportation, airport, bike trails, bus shelters, professional services	42,231	5,850	565,673	-	613,754
Parking garage debt service, parking leases	320,386	284,173	-	-	604,559
FRED transit costs	-	-	502,844	411,381	914,225
Transportation salaries/benefits; debt service	-	-	-	777,759	777,759
	$ 510,613	$ 974,868	$ 1,479,262	$ 1,214,140	$ 4,178,883

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2012

	State Grant Number	Expenses
VIRGINIA DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION:		
Direct Payments:		
Formula assistance	72012-33	$ 3,947,634
Ridesharing assistance	71012-11; 72511-XX	180,000
Transportation intern	71209-01; 71212-02	21,293
Fare Market Research	71312-01	18,199
TEIF Youth Outreach	71412-03	29,322
TMP Bus Service	72509-61	288,672
SmarTrip Expansion Program	73501-52	114
Capital - FY06	73006-22	15,694
Capital - FY07	73007-26	9,809
Capital - FY09	73009-65	438,828
Capital - FY09	73109-48	55,665
Capital - FY10	73010-73	82,123
Capital - FY10	73010-77	2,704
Capital - FY10	73010-78	9,679
Capital - FY11	73011-79	31,813
Capital- FY 11	73011-81	884
Capital- FY 11	73011-82	10,794
Capital- FY 11	73011-83	19,093
Capital- FY 11	73011-84	94
Capital- FY 11	73011-86	1,342
Capital- FY 11	73011-88	7,145
Capital- FY 11	73011-91	2,054
Capital- FY 11	73011-92	9,866
Capital- FY 12	73012-87	69,593
Capital- FY 12	73012-88	121,727
Capital- FY 12	73012-89	31,629
Capital- FY 12	73012-90	255
Capital- FY 12	73012-91	18,456
Capital- FY 12	73012-92	2,220
Capital- FY 12	73012-96	2,611
Capital- FY 12	73012-98	3,491
		5,432,803
Passthrough Payments:		
Prince William County		
Travel Training		7,283
Virginia Department of Transportation		
Congestion Mitigation & Air Quality (Employer Outreach)		9,887
Virginia Department of Transportation		
TMP Marketing		5,253
Total State Awards Expended		$ 5,455,226

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number	Federal CFDA Number	Expenses
DEPARTMENT OF TRANSPORTATION:		
Direct Payments:		
Federal Transit Administration:		
VA-04-0043	20.500	$ 278,327
VA-05-0044	20.500	53,922
VA-90-X353	20.507	803,496
VA-90-X380	20.507	2,340,229
VA-95-X046	20.507	2,659,918
VA-96-X009 ARRA	20.507	15,315
VA-03-0079	20.500	374,674
VA-04-0015	20.500	212,805
VA-05-0038	20.500	396,374
VA-05-0041	20.500	106,861
VA-05-0042	20.500	1,402,603
VA-05-0046	20.500	591,592
VA-05-0048	20.500	906,038
VA-90-X232	20.507	278,142
VA-90-X269	20.507	5,490
VA-90-X307	20.507	1,059,843
VA-90-X329	20.507	738,328
VA-90-X352	20.507	756,744
VA-90-X368	20.507	3,958,892
VA-90-X380	20.507	260,040
VA-95-X017	20.507	1,056,406
VA-95-X046	20.507	10,859,635
VA-95-X057	20.507	12,457
VA-95-X109	20.507	3,000,000
		32,128,131
Passthrough Payments:		
Prince William County:		
National Capital Regional Transportation Planning Board (TPB) (Management Mobility)	20.521	62,123
Prince William County:		
Travel Training	20.505	30,667
Metropolitan Washington Council of Governments:		
TIGER	20.932	2,764,421
Virginia Department of Transportation:		
Congestion Mitigation & Air Quality (Employer Outreach)	20.205	39,546
Virginia Department of Transportation:		
TMP Marketing	20.205	21,011
Virginia Department of Transportation	20.205	28,925
DC Homeland Security and Emergency Management Agency:		
Department of Homeland Security (FY09)	97.075	290,893 *
Department of Homeland Security (FY07)	97.075	896,692
		1,187,585
Total Federal Awards Expended		$ 36,262,409

* Dept of Homeland Security funds of $15,246 are classified as deferred revenue on the Statement of Net Assets.

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

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

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

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

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

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

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

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

Note 2. Relationship to the Basic Financial Statements

For fiscal year 2012, the Commission recognized amounts in the Schedule of Expenditures of Federal Awards (SEFA) associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current year, $13,910 of prior year expenditures related to the Federal Transit Cluster (CFDA #20.500 and #20.507) were included in the SEFA.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Potomac and Rappahannock Transportation Commission (Commission) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Items 12-01 through 12-03 to be material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance and Other Matters

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

We noted certain matters we reported to management of the Commission in a separate letter dated January 16, 2013.

The Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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

PBMares, LLP

Harrisonburg, Virginia
January 16, 2013

PBMares

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

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

Compliance

We have audited the compliance of the Potomac and Rappahannock Transportation Commission (Commission) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Commission's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

As described in item 12-04 in the accompanying Schedule of Findings and Questioned Costs, the Commission did not comply with reporting and monitoring standards established by the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*.

In our opinion, except for the item described in the preceding paragraph, the Commission has complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

The Commission's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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

PBMares, LLP

Harrisonburg, Virginia
January 16, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Federal awards

Internal control over major programs:

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

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

- Qualified for timely and accurately preparing the year end SEFA
- Unqualified for all other applicable compliance requirements of the major programs and applicable compliance requirements

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
97.075	Department of Homeland Security – Rail and Transit Security Grant Program
20.932	Department of Transportation – Surface Transportation - TIGER Grants

Federal Transit Cluster:

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

Dollar threshold used to distinguish between type A and type B programs: $1,087,872

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

II. FINANCIAL STATEMENT FINDINGS

12-01: Material Weakness in Internal Control over Reconciliation of Cash Account

Requirement: Cash accounts should be reconciled in a timely manner, typically within 30 days of receiving the monthly bank statement.

Condition: In updating our understanding of procedures pertaining to internal controls related to cash, it was noted that the month of September 2011 was the last month prior to the fiscal year end in which cash was completely reconciled. Additionally, it was noted that the June 2012 operating cash account was not completely reconciled until December 2012.

Effect: The potential effect of not reconciling cash in a timely manner is that items may not be properly recorded or reflected in the correct period. The Commission is also exposed to the risk of potential errors or fraud related to financial reporting.

Recommendation: We recommend the Commission adhere to its policy to ensure all cash accounts maintained are reconciled in a timely manner now that the new accounting system has been implemented and operating effectively.

Corrective Action Taken or Planned: Management agrees that cash accounts should be reconciled in a timely manner. Although the Commission went "live" with the new accounting system on October 3, 2011, additional financial modules were not implemented until late fiscal year 2012 and early fiscal year 2013 which directly impacted the timely recording of certain cash transactions. Procedures are now resuming to ensure the timely processing of financial data, and the reconciliation of fiscal year 2013 bank statements through November 30, 2012 are currently in process. Management anticipates resumption of complete and timely cash reconciliations by February 28, 2013.

12-02: Material Weakness Related to Administrative Rights to Accounting System (MUNIS)

Requirement: Individuals should only have access rights to the accounting system that correlate with each individual's job responsibilities.

Condition: Upon documenting our understanding of the MUNIS system it was noted that the Director of Finance and the Accounting and Budget Manager have administrative rights to the accounting system.

Effect: With individuals having administrative rights to the accounting system, they have the potential to manipulate financial data and override controls currently in place.

Recommendation: While our audit procedures did not indicate any instances of override or abuse by management, we recommend the administrative rights assigned to these individuals be fully evaluated, and be limited to only those access rights to the system that align with their job descriptions and responsibilities.

II. FINANCIAL STATEMENT FINDINGS (Continued)

12-02: Material Weakness Related to Administrative Rights to Accounting System (MUNIS) (Continued)

Corrective Action Taken or Planned: Management agrees that individuals should only have access rights to the accounting system that correlate with each individual's job responsibilities.

The Director of Finance and the Accounting and Budget Manager, functioning as accounting system implementation project managers, have access rights to the system that align with the responsibilities associated with this project assignment. Throughout implementation, administrative rights have been shared with (and continue to be shared with) the Information Technology department, limiting the administrative responsibilities of project management. A final step in completing the implementation will include a complete analysis of rights for *all* individuals with MUNIS access, particularly those with administrative rights. Access rights for each job function will be adjusted accordingly, and fully documented. Management anticipates that this documentation and transition process will take place in conjunction with the development of a more comprehensive accounting policies and procedures manual, which will be developed by the end of fiscal year 2013.

12-03: Material Weakness Related to Filing of Grant Reimbursement Request and Recording of Grant Revenue

Requirement: Reimbursement requests associated with expenditures eligible for State and Federal funding should be submitted for reimbursement on a timely basis and at least quarterly. Revenues associated with eligible expenditures should also be recorded in the general ledger on a timely basis.

Condition: During the course of our audit the Commission failed to prepare and submit reimbursement requests to the Department of Rail and Transportation and the Federal Transit Administration for eligible expenditures on a timely basis. As a result of failing to timely complete the reimbursement requests within a reasonable amount of time, revenue associated with State and Federal funding was not recorded in the general ledger timely.

Effect: There are several potential effects related to the timely filing of grant reimbursement requests. The potential exists for the loss of State and Federal funding due to untimely filing of reimbursement requests. The potential also exists for not recording revenue related to grant funding in the proper period in which the eligible expenses have occurred. Due to not filing reimbursement request timely, the Commission could face cash constraints related to operations and may have to use funds reserved for other activities to fund operations.

Recommendation: We recommend the Commission adhere to its policy of timely submission to ensure that grant reimbursement requests are filed timely now that the general revenue module is fully operational.

II. FINANCIAL STATEMENT FINDINGS (Continued)

12-03: Material Weakness Related to Filing of Grant Reimbursement Request and Recording of Grant Revenue (Continued)

Corrective Action Taken or Planned: Management agrees that reimbursement requests for State and Federal funding should be submitted on a timely basis. The revenue module has been implemented and reimbursement requests for fiscal year 2012 expenditures have been submitted for all active grants. Policies and procedures are being developed for the new accounting system to ensure the timely reconciliation and processing of grant reimbursements. Reimbursement requests for expenditures through November 30, 2012 are in process and will be submitted by January 31, 2013. Management anticipates resumption of complete and timely grant reimbursements on monthly cycle beginning with the Commission's December 2012 eligible grant expenditures. An anticipated monthly cycle is illustrated below:

January 2013	February 2013	March 2013
Expenditures Incurred during the calendar month	All January expenditures recorded (with a January effective date) by February 15th.	All reimbursement requests for January expenditures submitted to State and Federal agencies by March 8th.
	All grant revenues associated with January eligible expenditures recorded (with a January effective date) by February 22nd.	

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

12-04: Material Weakness in Timely Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Requirement: The A-102 Common Rule and OMB Circular A-110 require that non-federal entities receiving Federal awards establish and maintain internal control design to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. This includes being able to prepare an accurate, complete and timely Schedule of Expenditures of Federal Awards (SEFA) that is free of material errors.

Condition: During the course of our audit, we were not provided a complete and accurate SEFA until January 2013. The Commission was unable to provide a timely SEFA that reflected accurate federal expenditure activity for the year ended June 30, 2012.

Effect: This lack of accurate and timely identification of Federal awards could disallow for a greater accountability of Federal awards received and expended under the appropriate grants.

Recommendation: We suggest the Commission make a timelier attempt at identifying all Federal awards and prepare an accurate SEFA now that the general revenue module is operational.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

12-04: Material Weakness in Timely Preparation of the Schedule of Expenditures of Federal Awards (SEFA) (Continued)

Corrective Action Taken or Planned: Management agrees that the preparation of a timely and accurate Schedule of Expenditures of Federal Awards (SEFA) is imperative.

As noted previously, although the Commission went "live" with the new accounting system on October 3, 2011, additional financial modules were not implemented until late fiscal year 2012 and early fiscal year 2013 which directly impacted the timely recording of grant activity.

The policies and procedures that are being developed for the new accounting system to ensure the timely reconciliation and processing of grant reimbursements will ensure that all information reportable in the SEFA are accurate and readily available. These policies and procedures will include a formal documentation of a SEFA on a quarterly basis, commencing with the 3rd quarter of fiscal year 2013.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

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