

**POTOMAC AND RAPPAHANNOCK
TRANSPORTATION COMMISSION**

FINANCIAL STATEMENTS

JUNE 30, 2010

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Potomac and Rappahannock Transportation Commission (the "Commission") as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2010 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis (pages 3 to 8) and the required supplementary information (page 34) are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

PBGH, LLP

Harrisonburg, Virginia
October 26, 2010

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, 2010. This discussion and analysis is designed to assist the reader to focus on significant financial activities and identify any significant changes in the financial position of PRTC. It should be read in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2010, total assets of PRTC exceeded total liabilities by \$72,010,360. Of this amount, \$14,526,586 may be used to meet PRTC's on-going obligations.

The net assets of PRTC increased by \$843,068 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to PRTC's basic financial statements. The basic financial statements are comprised of four components: statements of net assets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The *statements of revenues, expenses and changes in net assets* present information on revenues, expenses, and changes in PRTC's net assets during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of PRTC's current year operation on its financial position.

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

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

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the statements of net assets; statements of revenues, expenses and changes in net assets; and statements of cash flows. The notes to the financial statements can be found immediately following the financial statements.

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

FINANCIAL ANALYSIS

Statements of Net Assets

Total assets of PRTC exceeded total liabilities by \$72,010,360 as of June 30, 2010. A significant portion of net assets is invested in net capital assets less any related debt that is still outstanding. PRTC uses these capital assets to provide express bus service from the Prince William County and Manassas areas to various points in the metropolitan Washington, D.C. area, and local bus service within Prince William County, and the cities of Manassas and Manassas Park. These capital assets are not available for future spending.

A condensed summary of PRTC's net assets at June 30, 2010, 2009, and 2008 is shown below.

| | 2010 | 2009 | 2008 |
|---|----------------------|----------------------|----------------------|
| ASSETS: | | | |
| Current assets | \$ 57,752,722 | \$ 51,423,838 | \$ 52,350,932 |
| Noncurrent assets | 667,062 | 1,309,459 | 1,924,149 |
| Capital assets, net | 37,410,814 | 38,253,305 | 36,930,496 |
| Total assets | 95,830,598 | 90,986,602 | 91,205,577 |
| LIABILITIES: | | | |
| Current liabilities | 23,820,238 | 18,467,960 | 10,883,760 |
| Noncurrent liabilities | - | 1,351,350 | 1,544,571 |
| Total liabilities | 23,820,238 | 19,819,310 | 12,428,331 |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | 34,884,180 | 34,328,965 | 35,045,701 |
| Restricted | 22,599,594 | 27,044,409 | 36,134,565 |
| Unrestricted | 14,526,586 | 9,793,918 | 7,596,980 |
| Total net assets | \$ 72,010,360 | \$ 71,167,292 | \$ 78,777,246 |

Approximately 31% of PRTC's net assets represent resources that are restricted. Of the restricted net assets, at June 30, 2010, \$20,431,224 is restricted for member jurisdictions, and the remaining \$2,168,370 is restricted for debt service.

Statements of Revenues, Expenses and Changes in Net Assets

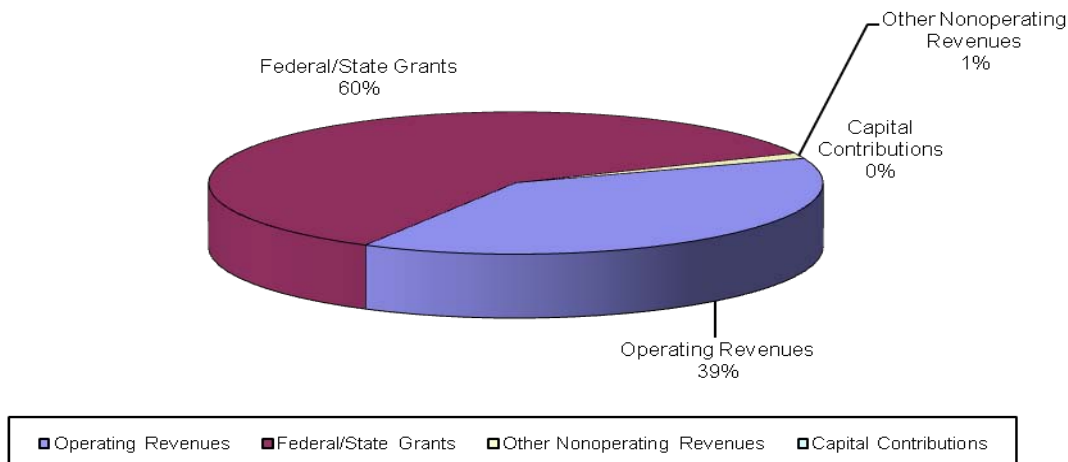
During fiscal year 2010, PRTC’s activities resulted in an increase in net assets of \$843,068. The key elements of the changes in net assets are shown in the following table.

| | 2010 | 2009 | Percent Increase (Decrease) |
|-----------------------------|----------------------|----------------------|--------------------------------|
| REVENUES: | | | |
| Operating revenues | \$ 30,418,483 | \$ 27,988,139 | 9% |
| Federal and state grants | 47,231,446 | 42,107,909 | 12% |
| Other nonoperating revenues | 980,291 | 1,503,162 | (35)% |
| Capital contributions | 43,421 | 40,970 | 6% |
| Total revenues | 78,673,641 | 71,640,180 | 10% |
| EXPENSES: | | | |
| Operating expenses | 44,739,702 | 49,742,972 | (10)% |
| Commuter rail services | 32,950,964 | 29,344,146 | 12% |
| Pass-through grants | 13,667 | 885 | 1,444% |
| Other nonoperating expenses | 126,240 | 162,131 | (22)% |
| Total expenses | 77,830,573 | 79,250,134 | (2)% |
| Change in net assets | 843,068 | (7,609,954) | 111% |
| Net Assets, beginning | 71,167,292 | 78,777,246 | (10)% |
| Net Assets, ending | \$ 72,010,360 | \$ 71,167,292 | 1% |

The increase in operating revenues of approximately \$2.4 million from fiscal year 2009 is due primarily to an increase of approximately \$1.7 million in the motor fuel tax revenue, and an increase of approximately \$0.7 million in bus farebox revenues from slightly higher ridership on OmniRide and a full year’s effect from a fare increase in December 2008. Federal and state grants increased approximately \$5.1 million from fiscal year 2009. This increase is primarily the result of \$3.6 million additional federal and state funds received for various Virginia Railway Express projects, \$0.70 million less federal funds for PRTC projects, and \$2.1 million more from state funding for PRTC projects. The decrease in other nonoperating revenues of approximately \$0.5 million from fiscal year 2009 is primarily due to a decrease in investment income as a result of lower interest rates.

The following chart shows revenues by source for the fiscal year ended June 30, 2010.

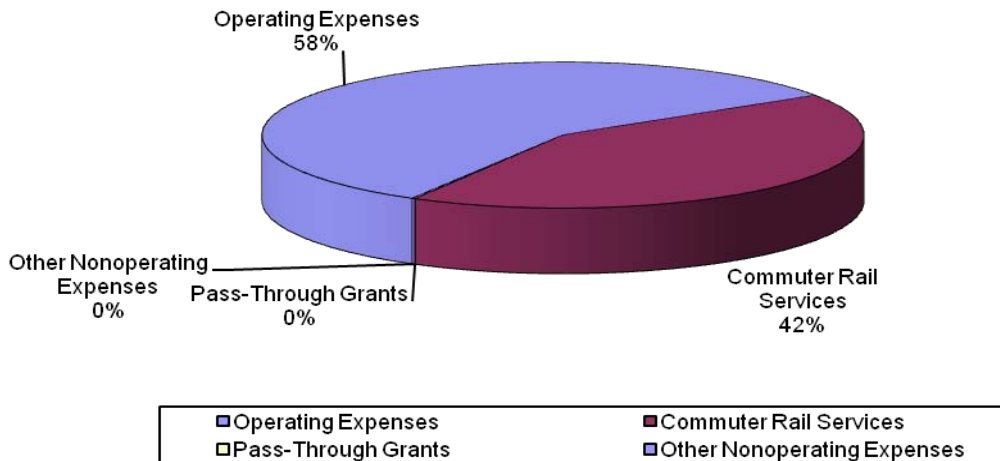
FY10 Revenues



Total operating expenses decreased by approximately \$5 million, principally due to direct transportation and materials, supplies, and minor equipment expenses. Direct transportation expenses represent the use of jurisdictional motor fuel tax funds for the Virginia Railway Express (VRE) subsidy as well as other jurisdictional transportation projects independent of PRTC. Direct transportation decreased by approximately \$3.9 million from fiscal year 2009, principally the result of a decrease in other jurisdictional transportation projects that member jurisdictions pursued, independent of PRTC, employing motor fuel tax resources. Materials, supplies, and minor equipment decreased by approximately \$1.6 million primarily because of the significant decrease in diesel fuel prices. The average price per gallon of diesel fuel for PRTC decreased from \$3.50 in fiscal year 2009 to \$1.99 in fiscal year 2010.

The following chart shows expenses for the fiscal year ended June 30, 2010.

FY10 Expenses



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

| | 2009 | 2008 | Percent Increase (Decrease) |
|-----------------------------|----------------------|----------------------|-----------------------------------|
| REVENUES: | | | |
| Operating revenues | \$ 27,988,139 | \$ 30,149,901 | (7)% |
| Federal and state grants | 42,107,909 | 41,895,970 | 1% |
| Other nonoperating revenues | 1,503,162 | 2,619,534 | (43)% |
| Capital contributions | 40,970 | 46,245 | (11)% |
| Total revenues | 71,640,180 | 74,711,650 | (4)% |
| EXPENSES: | | | |
| Operating expenses | 49,742,972 | 40,400,972 | 23% |
| Commuter rail services | 29,344,146 | 29,087,911 | 1% |
| Pass-through grants | 885 | 1,744 | (49)% |
| Other nonoperating expenses | 162,131 | 171,741 | (6)% |
| Total expenses | 79,250,134 | 69,662,368 | 14% |
| Change in net assets | (7,609,954) | 5,049,282 | (251)% |
| Net Assets, beginning | 78,777,246 | 73,727,964 | 7% |
| Net Assets, ending | \$ 71,167,292 | \$ 78,777,246 | (10)% |

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

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

Direct transportation expenses represent the use of jurisdictional motor fuel tax funds for purposes other than PRTC directly. Such expenses include: 1) VRE subsidy and 2) other jurisdictional transportation projects independent of PRTC. Direct transportation increased by approximately \$6.2 million from fiscal year 2008. The two principal "drivers" of this increase are a \$3.1 million increase in the PRTC jurisdictional VRE subsidy and a \$3.1 million increase in other jurisdictional transportation projects that member jurisdictions pursued, independent of PRTC, employing motor fuel tax resources.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PRTC's investment in capital assets as of June 30, 2010, amounts to \$37,410,814 (net of accumulated depreciation and amortization). This investment in capital assets includes buses and related equipment, vehicles, construction in progress, furniture and equipment, bus shelters, buildings, building improvements, site improvements, and easement.

Major capital asset additions during fiscal year 2010 included the following:

- Delivery of one OmniLink and four OmniRide buses at a cost of \$2,196,693
- Rehab of five OmniRide buses at a cost of \$687,926
- Construction of a commuter lot at a cost of \$1,243,188

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

| | 2010 | 2009 | 2008 |
|------------------------------------|----------------------|----------------------|----------------------|
| Buses and related equipment | \$ 26,306,318 | \$ 27,961,889 | \$ 27,136,953 |
| Vehicles | 50,745 | 64,277 | - |
| Construction in progress | 1,815,795 | 1,921,186 | 2,838,843 |
| Furniture, equipment, and software | 263,144 | 383,130 | 483,672 |
| Bus shelters | 438,279 | 245,596 | 278,472 |
| Buildings | 4,698,953 | 4,967,364 | 5,235,775 |
| Building improvements | 2,419,454 | 2,581,912 | 825,916 |
| Site improvements | 1,395,126 | 127,951 | 130,865 |
| Easement | 23,000 | - | - |
| Total | \$ 37,410,814 | \$ 38,253,305 | \$ 36,930,496 |

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

Long-Term Debt

At the end of the fiscal year, PRTC had total revenue bonds payable outstanding of \$835,000. These bonds are secured by Prince William County's portion of the motor fuel tax revenue, basic rent payments made by Prince William County under the lease of transportation facilities, and certain funds established under the Indenture.

During fiscal year 2010, PRTC retired the capitalized lease obligation, collateralized with four buses, in the amount of \$1,462,735.

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

REQUEST FOR INFORMATION

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

FINANCIAL STATEMENTS

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

| ASSETS | 2010 | 2009 |
|---|----------------------|----------------------|
| Current Assets | | |
| Cash and investments in bank | \$ 16,470,984 | \$ 6,913,282 |
| Cash and investments in pooled funds | 953,195 | 951,348 |
| Cash and investments in pooled funds - member jurisdictions | 17,142,978 | 23,626,783 |
| Receivables: | | |
| Due from other governments | 20,488,912 | 16,553,760 |
| Due from Virginia Railway Express | 484,355 | 1,119,232 |
| Miscellaneous | 16,031 | 2,844 |
| Prepaid expenses and other assets | 60,722 | 122,477 |
| Restricted assets: | | |
| Tax free money market | 920,370 | 919,540 |
| Investments held by trustee | 1,215,175 | 1,214,572 |
| Total current assets | 57,752,722 | 51,423,838 |
| Noncurrent Assets | | |
| Other assets: | | |
| Unamortized bond issuance costs, net | 6,078 | 15,197 |
| Net investment in direct financing lease | 660,984 | 1,294,262 |
| Total other assets | 667,062 | 1,309,459 |
| Capital assets: | | |
| Transportation equipment: | | |
| Buses and related equipment | 53,112,913 | 51,067,499 |
| Less: accumulated depreciation | (26,806,595) | (23,105,610) |
| Transportation equipment, net | 26,306,318 | 27,961,889 |
| Buildings and equipment: | | |
| Construction in progress | 1,815,795 | 1,921,186 |
| Vehicles | 109,512 | 109,512 |
| Furniture, equipment, and software | 900,814 | 915,338 |
| Bus shelters | 797,275 | 506,285 |
| Building improvements | 2,920,477 | 2,918,207 |
| Buildings | 8,052,341 | 8,052,341 |
| Site improvements | 1,435,093 | 146,041 |
| Easement | 23,000 | - |
| Less: accumulated depreciation and amortization | (4,949,811) | (4,277,494) |
| Buildings and equipment, net | 11,104,496 | 10,291,416 |
| Total capital assets, net | 37,410,814 | 38,253,305 |
| Total noncurrent assets | 38,077,876 | 39,562,764 |
| Total assets | \$ 95,830,598 | \$ 90,986,602 |

See Notes to Financial Statements.

| LIABILITIES AND NET ASSETS | 2010 | 2009 |
|---|----------------------|----------------------|
| Current Liabilities | | |
| Accounts payable and other liabilities | \$ 3,820,813 | \$ 3,997,854 |
| Accrued payroll and benefits | 876,665 | 802,320 |
| Due to other governments | 1,011,594 | 2,222,292 |
| Due to Virginia Railway Express | 14,607,846 | 7,353,233 |
| Deferred revenue | 302,899 | 198,109 |
| Capital lease | - | 889,867 |
| Interest payable - capital lease | - | 1,964 |
| Liabilities payable from restricted assets: | | |
| Interim notes payable | 2,375,225 | 2,177,384 |
| Bond interest payable | 12,803 | 24,937 |
| Revenue bonds payable - current portion | 812,393 | 800,000 |
| Total current liabilities | 23,820,238 | 18,467,960 |
| Noncurrent Liabilities | | |
| Revenue bonds payable - net of unamortized discount | - | 778,482 |
| Capital lease | - | 572,868 |
| Total noncurrent liabilities | - | 1,351,350 |
| Total liabilities | 23,820,238 | 19,819,310 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 34,884,180 | 34,328,965 |
| Restricted | 22,599,594 | 27,044,409 |
| Unrestricted | 14,526,586 | 9,793,918 |
| Total net assets | 72,010,360 | 71,167,292 |
| Total liabilities and net assets | \$ 95,830,598 | \$ 90,986,602 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Operating Revenues: | | |
| Motor fuel tax revenues | \$ 20,316,515 | \$ 18,597,606 |
| Farebox revenues | 9,382,458 | 8,731,717 |
| Advertising revenue | 719,510 | 658,816 |
| Total operating revenues | 30,418,483 | 27,988,139 |
| Operating Expenses: | | |
| Direct transportation | 15,219,932 | 19,129,578 |
| Salaries and related benefits | 3,895,289 | 3,980,331 |
| Contractual services | 16,657,228 | 16,838,555 |
| Other services | 1,004,697 | 915,497 |
| Materials, supplies and minor equipment | 2,489,531 | 4,120,871 |
| Depreciation and amortization | 5,473,025 | 4,758,140 |
| Total operating expenses | 44,739,702 | 49,742,972 |
| Operating loss | (14,321,219) | (21,754,833) |
| Nonoperating Revenues (Expenses): | | |
| Federal and state grants commuter bus and rail services | 47,231,446 | 42,107,909 |
| Federal and state grants commuter rail services | (32,950,964) | (29,344,146) |
| Pass-through grants - third party provider | (12,935) | - |
| Pass-through grants - member jurisdictions | (732) | (885) |
| Reimbursement from member jurisdiction | 597,151 | 470,011 |
| Investment income | 53,260 | 542,474 |
| Direct financing lease interest income | 74,810 | 109,235 |
| Interest expense | (126,240) | (162,131) |
| Other revenue | 249,818 | 377,542 |
| Gain on disposal of capital assets | 5,252 | 3,900 |
| Total nonoperating revenues, net | 15,120,866 | 14,103,909 |
| Income (loss) before contributions | 799,647 | (7,650,924) |
| Capital Contributions | 43,421 | 40,970 |
| Change in net assets | 843,068 | (7,609,954) |
| Net Assets, beginning | 71,167,292 | 78,777,246 |
| Net Assets, ending | \$ 72,010,360 | \$ 71,167,292 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from motor fuel tax | \$ 19,008,510 | \$ 20,892,092 |
| Receipts from customers | 10,009,941 | 8,672,943 |
| Receipts from advertising | 719,510 | 658,816 |
| Payments to suppliers | (20,400,067) | (21,091,924) |
| Payments to member jurisdictions | (16,430,630) | (17,690,996) |
| Payments to employees | (3,820,944) | (3,832,122) |
| Net cash used in operating activities | (10,913,680) | (12,391,191) |
| Cash Flows from Capital and Related Financing Activities: | | |
| Interest payments on revenue bonds and interim loan | (95,402) | (169,448) |
| Interest payments on capital leases | (40,778) | (23,373) |
| Principal payments on revenue bonds | (800,000) | (765,000) |
| Principal payments on capital leases | (1,462,735) | (325,628) |
| Proceeds from sale of assets | 12,621 | 9,076 |
| Receipts from direct financing lease | 874,810 | 874,235 |
| Deferred capital contribution | 50,000 | - |
| Purchase of buses and related equipment | (2,506,394) | (2,097,440) |
| Payments for building and site improvements, construction in progress, bus shelters, furniture and equipment | (1,491,733) | (1,160,136) |
| Net cash used in capital and related financing activities | (5,459,611) | (3,657,714) |
| Cash Flows from Noncapital Financing Activities: | | |
| Federal and state grants commuter bus and rail services | 44,665,152 | 35,345,369 |
| Payments for commuter rail services | (25,695,619) | (25,769,286) |
| Payments for jurisdiction grant - related expenditures | (732) | (885) |
| Net cash provided by noncapital financing activities | 18,968,801 | 9,575,198 |
| Cash Flows From Investing Activities: | | |
| Investment income | 53,260 | 542,474 |
| Sales and maturities of investments | 873,377 | 874,235 |
| Purchase of investments | (874,810) | (655,474) |
| Other revenues | 428,407 | 483,500 |
| Net cash provided by investing activities | 480,234 | 1,244,735 |
| Net increase (decrease) in cash and cash equivalents | 3,075,744 | (5,228,972) |
| Cash and Cash Equivalents | | |
| Beginning | 31,491,413 | 36,720,385 |
| Ending | \$ 34,567,157 | \$ 31,491,413 |

See Notes to Financial Statements.

| | 2010 | 2009 |
|---|------------------------|------------------------|
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities: | | |
| Operating loss | \$ (14,321,219) | \$ (21,754,833) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 5,473,025 | 4,758,140 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Due from other governments | (1,385,221) | 1,684,347 |
| Due from Virginia Railway Express | 634,877 | (82,188) |
| Miscellaneous receivables | (11,270) | 596,319 |
| Prepaid expenses and other assets | 61,755 | (80,611) |
| Increase (decrease) in: | | |
| Accounts payable and other liabilities | (310,366) | 863,609 |
| Accrued payroll and benefits | 74,345 | 148,209 |
| Due to other governments | (1,210,698) | 1,438,582 |
| Deferred revenue | 81,092 | 37,235 |
| Net cash used in operating activities | \$ (10,913,680) | \$ (12,391,191) |
| Schedule of Noncash Capital Activities: | | |
| Capital assets acquired through capital contributions | \$ 43,421 | \$ 40,970 |
| Capital assets acquired through accounts payable | 391,342 | 258,017 |
| Capital assets acquired through interim note financing | 197,841 | 702,326 |
| Capital assets acquired through capital lease | - | 1,788,363 |
| Capital asset acquired through an easement | 23,000 | - |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

The Potomac and Rappahannock Transportation Commission (“PRTC” or the “Commission”) was created on June 19, 1986, as a public body corporate and politic under the provisions of Chapter 32, Article 2, Title 15.1, of the *Code of Virginia*, 1950, as amended, for the purpose of facilitating the planning and development of an improved transportation system. The transportation system is composed of transit facilities, public highways, and other modes of transportation required in order to promote orderly transportation into, within, and from the various contiguous counties and cities composing the Commission, and to secure the comfort, convenience, and safety of its citizens through joint action by those contiguous counties and cities. The Commission includes the counties of Prince William, Spotsylvania, and Stafford, as well as the cities of Fredericksburg, Manassas, and Manassas Park (collectively referred to as “member jurisdictions”). Spotsylvania County became a member effective February 15, 2010. The Commission was created to manage and control the function, affairs, and property of PRTC.

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

| | Members | Represented Jurisdictions |
|--|-----------|------------------------------|
| Prince William County | 6 | 1 |
| Stafford County | 2 | 1 |
| Spotsylvania County | 2 | 1 |
| Manassas | 1 | 1 |
| Manassas Park | 1 | 1 |
| Fredericksburg | 1 | 1 |
| Commonwealth House of Delegates | 2 | 1 |
| Commonwealth Senate | 1 | 1 |
| Virginia Department of Rail and Public Transportation | 1 | - |
| | <u>17</u> | <u>8</u> |

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization (Continued)

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

Note 2. Summary of Significant Accounting Policies

The following summarizes PRTC's significant accounting policies:

Reporting entity: PRTC has considered its relationship with the member jurisdictions in establishing the appropriate reporting entity in terms of financial accountability and fiscal dependency. None of the member jurisdictions appoint a voting majority of the Commission. Although action by PRTC, including adoption of a budget and issuance of debt, requires approval of a majority of the member jurisdictions, each jurisdiction controls PRTC's use of its 2.1% 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 Virginia Railway Express ("VRE") is jointly operated and controlled by PRTC and the Northern Virginia Transportation Commission ("NVTC") as a joint venture (see Note 10). Neither PRTC nor NVTC appoints a voting majority of the Operations Board of VRE. PRTC has no explicit, measurable equity interest in VRE. VRE is fiscally dependent on PRTC, NVTC, its member jurisdictions, and grants from the Commonwealth of Virginia and the federal government, and, therefore, is not included as a component unit of PRTC.

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Restricted assets: Cash and investments held by trustee include bond proceeds and funds designated for specific purposes. The Trustee, The Bank of New York, maintains the resources in appropriate accounts in accordance with the Master Indenture of Trust.

Capital assets: Capital assets are stated at historical cost. Capital assets are defined by PRTC as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation 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 | 5 - 15 years |
| Site improvements | 5 - 20 years |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Operating expenses are incurred for activities related to providing public transportation services to PRTC's customers. PRTC's operating expenses include direct transportation expenses and general and administrative expenses. Nonoperating expenses include interest expense.

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments

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

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

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

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

As of June 30, 2010, the carrying values and maturity of PRTC’s investments were as follows:

| Investment Type | Fair Value | Maturities Less Than One Year |
|--------------------------|----------------------|-------------------------------|
| LGIP | \$ 18,096,173 | \$ 18,096,173 |
| Money market funds | 18,676,545 | 18,676,545 |
| Total investments | \$ 36,772,718 | \$ 36,772,718 |

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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

Authorized Investments

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

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

Diversification

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

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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

| | 2010 | 2009 |
|------------------------|----------------------|----------------------|
| Stafford County | \$ 2,701,632 | \$ 2,923,386 |
| Prince William County | 5,582,023 | 11,201,825 |
| City of Manassas | 1,408,030 | 1,994,461 |
| City of Manassas Park | 2,445,890 | 2,440,210 |
| City of Fredericksburg | 4,411,966 | 5,066,901 |
| Spotsylvania County | 593,437 | - |
| | <u>\$ 17,142,978</u> | <u>\$ 23,626,783</u> |

Note 4. Restricted Assets

Restricted assets held by the Trustee represent the portion of resources held by the Trustee on behalf of PRTC in accordance with the applicable bond covenants. These assets include cash and investments. The accounts established under the indenture of trust have the following restricted assets held by the Trustee at June 30, 2010 and 2009:

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Bond fund | \$ 341,512 | \$ 416,484 |
| Debt service reserve fund | 873,663 | 798,088 |
| Total restricted assets held by trustee | <u>\$ 1,215,175</u> | <u>\$ 1,214,572</u> |

Restricted assets also consist of funds invested in a Virginia Tax Free Institutional Fund in accordance with the applicable interim notes covenants. Funds totaling \$2,838,500 were initially received from the PRTC bus sponsoring jurisdictions for several capital related activities. Subsequently, those activities are being funded by the interim notes, and the \$2,838,500 was reprogrammed for other operating and capital expenses. As of June 30, 2010, the balance in this tax free fund was \$920,370.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 5. Due To/From Other Governments

Amounts due from other governments are as follows:

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Virginia Department of Taxation - motor fuel tax receipts | \$ 4,217,509 | \$ 2,909,504 |
| Virginia Department of Rail and Public Transportation | 490,397 | 2,337,189 |
| Federal Transit Administration: | | |
| Grant proceeds | 1,193,331 | 4,638,959 |
| Commuter rail grant expenditures | 13,843,349 | 6,053,221 |
| Washington Metropolitan Area Transit Authority | 687,354 | 612,056 |
| Prince William County | 14,948 | 1,320 |
| City of Manassas | - | 1,511 |
| Metropolitan Washington Council of Government | 3,246 | - |
| Virginia Department of Transportation | 9,166 | - |
| Department of Homeland Security | 29,612 | - |
| | <u>\$ 20,488,912</u> | <u>\$ 16,553,760</u> |

Amounts due to other governments are as follows:

| | 2010 | 2009 |
|---|---------------------|---------------------|
| City of Manassas | \$ - | \$ 1,031,656 |
| City of Manassas Park | 131,924 | 885 |
| City of Fredericksburg | 850,367 | 1,160,448 |
| Northern Virginia Transportation Commission | 29,303 | 29,303 |
| | <u>\$ 1,011,594</u> | <u>\$ 2,222,292</u> |

Note 6. Net Investment in Direct Financing Lease

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

| Year Ending June 30, | Amount |
|--------------------------------|-------------------|
| 2011 | \$ 873,410 |
| Less: Unearned income | (38,410) |
| Deferred contributions | (174,016) |
| Net investment in lease | <u>\$ 660,984</u> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Changes in capital assets for the year ended June 30, 2010 are as follows:

| | Balance June 30, 2009 | Increases | Reclassifications/ Decreases | Balance June 30, 2010 |
|--|-----------------------------|---------------------|---------------------------------|-----------------------------|
| Capital assets not being depreciated or amortized: | | | | |
| Construction in progress | \$ 1,921,186 | \$ 270,889 | \$ (376,280) | \$ 1,815,795 |
| Capital assets being depreciated and amortized: | | | | |
| Buses and related equipment | 51,067,499 | 3,069,220 | (1,023,806) | 53,112,913 |
| Vehicles | 109,512 | - | - | 109,512 |
| Furniture, equipment, and software | 915,338 | 4,335 | (18,859) | 900,814 |
| Bus shelters | 506,285 | 153,818 | 137,172 | 797,275 |
| Building improvements | 2,918,207 | 68,576 | (66,306) | 2,920,477 |
| Buildings | 8,052,341 | - | - | 8,052,341 |
| Site improvements | 146,041 | 1,063,893 | 225,159 | 1,435,093 |
| Easement | - | 23,000 | - | 23,000 |
| Total capital assets being depreciated and amortized | 63,715,223 | 4,382,842 | (746,640) | 67,351,425 |
| Less accumulated depreciation and amortization for: | | | | |
| Buses and related equipment | 23,105,610 | 4,724,791 | (1,023,806) | 26,806,595 |
| Vehicles | 45,235 | 13,532 | - | 58,767 |
| Furniture, equipment, and software | 532,208 | 124,321 | (18,859) | 637,670 |
| Bus shelters | 260,689 | 104,338 | (6,031) | 358,996 |
| Building improvements | 336,295 | 176,835 | (12,107) | 501,023 |
| Buildings | 3,084,977 | 268,411 | - | 3,353,388 |
| Site improvements | 18,090 | 21,877 | - | 39,967 |
| Total accumulated depreciation and amortization | 27,383,104 | 5,434,105 | (1,060,803) | 31,756,406 |
| Total capital assets being depreciated and amortized, net | 36,332,119 | (1,051,263) | 314,163 | 35,595,019 |
| Totals | \$ 38,253,305 | \$ (780,374) | \$ (62,117) | \$ 37,410,814 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets (Continued)

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

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Liabilities

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

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

A summary of changes in long-term debt for the year ended June 30, 2010 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--|----------------------|-------------|---------------------|-------------------|------------------------|
| 1997 facility lease revenue refunding bond, \$7,445,000, 4.0%-4.6% | \$ 1,635,000 | \$ - | \$ (800,000) | \$ 835,000 | \$ 835,000 |
| 1997 bond discount | (56,518) | - | 33,911 | (22,607) | - |
| Total long-term liabilities | \$ 1,578,482 | \$ - | \$ (766,089) | \$ 812,393 | \$ 835,000 |

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

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

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Liabilities (Continued)

Debt Service Requirements

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

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|--------------|
| 2011 | \$ 835,000 | \$ 38,410 | \$ 873,410 |

Pledged Funds

The payment of principal and interest on the 1997 bonds is secured by a pledge of (1) Prince William County's portion of 2.1% motor fuel tax revenues, (2) basic rent payments made by Prince William County under the lease of the transportation facilities (see Note 6), and (3) certain funds established under the Indenture.

Accounts Established in Accordance with the Indentures

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

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

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

The Indenture requires PRTC to make monthly deposits from Prince William County's portion of 2.1% motor fuel tax revenues to the Bond Fund so that it will contain the amount required for the next succeeding principal and/or interest payment on the bonds 60 days before the payment date. To the extent Prince William County's portion of 2.1% motor fuel tax revenues is not sufficient to meet the scheduled debt service payment, Prince William County will make lease payments to PRTC.

The following funds are established under the 1997 Indenture:

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

PRTC obtained two interim notes during July 2007 for \$4,200,000 to finance land acquisition, design, and construction and management costs associated with a new commuter parking lot and construction costs associated with expansion of the bus storage yard. The outstanding balance was \$2,016,138 and \$1,914,739 for the tax-exempt note and \$359,087 and \$262,645 for the taxable note at June 30, 2010 and 2009, respectively. The effective interest rates were .0867% and 1.05%, respectively, at June 30, 2010.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 9. Net Assets

Restricted net assets represent net assets that are subject to restrictions beyond PRTC's control. Following is a summary of the components of restricted net assets as of June 30, 2010 and 2009:

| | 2010 | 2009 |
|------------------------------------|----------------------|----------------------|
| Member jurisdictions | \$ 20,431,224 | \$ 24,878,489 |
| Debt service | 2,168,370 | 2,165,920 |
| Total restricted net assets | \$ 22,599,594 | \$ 27,044,409 |

Unrestricted net assets consist of the following as of June 30, 2010 and 2009:

| | 2010 | 2009 |
|--|----------------------|---------------------|
| Designations of unrestricted net assets: | | |
| Carryforward to support next year budget | \$ 2,577,336 | \$ 78,432 |
| Local match for grants | 2,658,803 | 3,133,125 |
| Total designations | 5,236,139 | 3,211,557 |
| Undesignated unrestricted net assets | 9,284,369 | 6,567,164 |
| Total unrestricted net assets | \$ 14,520,508 | \$ 9,778,721 |

Note 10. Joint Venture - Virginia Railway Express

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

VRE is managed by the Commissions with certain functions delegated to the VRE Operations Board which consists of representatives of all contributing and participating jurisdictions and one ex-officio representative of the Virginia Department of Rail and Public Transportation. The Operations Board is responsible for the financial management of VRE. Operational and capital costs of the rail service are financed by bond issues, Federal grants (received by PRTC), and State grants (received by NVTC), local jurisdiction assistance, and passenger revenue. Assistance to be provided by the local jurisdictions is based on a population and ridership formula for participating jurisdictions and a predetermined contribution amount from contributing jurisdictions. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania, and Stafford and the cities of Manassas, Manassas Park, and Fredericksburg. Contributing jurisdictions include Arlington County and the City of Alexandria. Spotsylvania County was admitted as a participating jurisdiction effective February 15, 2010. Spotsylvania's share of the VRE subsidy is deferred for three years, with payment required within 60 days once the deferral period ends.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Joint Venture - Virginia Railway Express (Continued)

In July 2007, PRTC and NVTC adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions, and provided for board representation proportionate to system ridership and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the current 90% system ridership and 10% population formula. The amendment to the subsidy formula is being phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

At June 30, 2010, VRE had total debt outstanding of \$114,455,478, comprised of revenue bonds (\$29,490,000), capital leases (\$20,775,627), and notes payable (\$64,189,851). The revenue bonds are issued under the name of NVTC and are secured by a pledge of VRE revenue. A debt service insurance policy guarantees payment of each bond series. NVTC and PRTC are co-lessees of the capital leases for rolling stock, which are secured by the related equipment. The promissory notes with the Federal Railroad Administration for the purchase of 60 Gallery railcars were issued by NVTC, and PRTC consented to their issuance and to the pledge of VRE revenues. The notes are secured by the revenues of VRE and the rolling stock.

For the years ended June 30, 2010 and 2009, PRTC paid \$11,074,197 and \$11,475,089, respectively, for VRE support on behalf of its member jurisdictions.

Due to the significance of the relationship between PRTC, NVTC and VRE, the following financial information is included here. A complete report can be obtained by contacting VRE at 1500 King Street, Alexandria, VA, 22314.

VIRGINIA RAILWAY EXPRESS STATEMENT OF NET ASSETS June 30, 2010

| ASSETS | |
|--|-----------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 10,042,748 |
| Accounts receivable, net of allowance | 21,134,625 |
| Inventory | 3,445,580 |
| Prepaid expenses and other | 772,322 |
| Restricted cash, cash equivalent, and investments | 15,579,409 |
| Total current assets | 50,974,684 |
| Noncurrent Assets | |
| Deferred bond and lease costs, net | 1,473,627 |
| Capital assets (net of \$85,815,038 accumulated depreciation and amortization) | 280,924,816 |
| Total noncurrent assets | 282,398,443 |
| Total assets | \$ 333,373,127 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Joint Venture - Virginia Railway Express (Continued)

VIRGINIA RAILWAY EXPRESS
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

| LIABILITIES AND NET ASSETS | |
|---|-----------------------|
| Current Liabilities | |
| Accounts payable and accrued liabilities | \$ 14,538,022 |
| Unearned revenue | 1,056,857 |
| Contract retainage | 1,976,566 |
| Current portion of: | |
| Capital lease obligations | 988,975 |
| Long-term debt | 5,195,000 |
| Notes payable | 1,632,381 |
| Total current liabilities | <u>25,387,801</u> |
| Noncurrent Liabilities | |
| Capital lease obligations | 19,786,652 |
| Notes payable | 62,557,470 |
| Bonds payable, net | 23,747,340 |
| Compensated absences | 283,534 |
| Total noncurrent liabilities | <u>106,374,996</u> |
| Total liabilities | <u>131,762,797</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 164,700,455 |
| Restricted for liability insurance plan | 9,511,797 |
| Restricted for debt service and capital lease | 5,980,313 |
| Restricted grants or contributions | 34,619 |
| Unrestricted assets | 21,383,156 |
| Total net assets | <u>201,610,330</u> |
| Total liabilities and net assets | <u>\$ 333,373,127</u> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Joint Venture - Virginia Railway Express (Continued)

**VIRGINIA RAILWAY EXPRESS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year Ended June 30, 2010**

| | | |
|---|----|--------------|
| Operating revenues | \$ | 30,267,105 |
| Operating expenses | | 52,594,511 |
| Operating loss before depreciation and amortization | | (22,327,406) |
| Depreciation and amortization | | (11,337,406) |
| Operating loss | | (33,664,812) |
| Nonoperating revenues (expenses): | | |
| Subsidies: | | |
| Commonwealth of Virginia grants | | 13,153,781 |
| Federal grants – with PRTC as grantee | | 14,525,795 |
| Jurisdictional contributions | | 16,376,968 |
| Capital grants and assistance: | | |
| Commonwealth of Virginia grants | | 10,939,490 |
| Federal grants – with PRTC as grantee | | 15,437,312 |
| Federal grants - other | | 402,355 |
| Other local contributions | | 680,631 |
| Interest income: | | |
| Operating funds | | 23,893 |
| Insurance trust | | 65,164 |
| Other restricted funds | | 586 |
| Interest, amortization and other nonoperating expenses, net | | (5,682,935) |
| Total nonoperating revenues, net | | 65,923,040 |
| Loss on disposal of assets | | (393,419) |
| Change in net assets | | 31,864,809 |
| Net assets, beginning | | 169,745,521 |
| Net assets, ending | \$ | 201,610,330 |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 10. Joint Venture - Virginia Railway Express (Continued)

Capital asset activity for VRE for the year ended June 30, 2010 was as follows:

| | Beginning Balance | Increases | (Deletions) Reclassifications | Ending Balance |
|--|-----------------------|----------------------|----------------------------------|-----------------------|
| Capital assets not being depreciated or amortized: | | | | |
| Construction in progress | \$ 33,842,651 | \$ 33,882,630 | \$ (24,907,703) | \$ 42,817,578 |
| Capital assets being depreciated and amortized: | | | | |
| Rolling stock | 153,611,395 | 636,844 | 21,603,937 | 175,852,176 |
| Vehicles | 45,550 | 28,612 | - | 74,162 |
| Facilities | 76,785,604 | 589,083 | 724,468 | 78,099,155 |
| Track and signal improvements | 52,151,000 | - | - | 52,151,000 |
| Equipment | 7,850,081 | 38,738 | 887,502 | 8,776,321 |
| Equity in local properties | 5,244,798 | - | - | 5,244,798 |
| Furniture, equipment and software | 3,314,942 | 33,868 | 375,854 | 3,724,664 |
| Total capital assets being depreciated and amortized | 299,003,370 | 1,327,145 | 23,591,761 | 323,922,276 |
| Less accumulated depreciation and amortization for: | | | | |
| Rolling stock | 37,389,117 | 6,061,113 | (181,748) | 43,268,482 |
| Vehicles | 43,283 | 3,698 | - | 46,981 |
| Facilities | 16,580,997 | 2,145,809 | (216,628) | 18,510,178 |
| Track and signal improvements | 10,718,487 | 1,738,300 | - | 12,456,787 |
| Equipment | 6,151,721 | 648,323 | - | 6,800,044 |
| Equity in local properties | 2,347,648 | 149,851 | - | 2,497,499 |
| Furniture, equipment and software | 1,644,755 | 590,312 | - | 2,235,067 |
| Total accumulated depreciation and amortization | 74,876,008 | 11,337,406 | (398,376) | 85,815,038 |
| Total capital assets being depreciated and amortized, net | 224,127,362 | (10,010,261) | 23,990,137 | 238,107,238 |
| Totals | \$ 257,970,013 | \$ 23,872,369 | \$ (917,566) | \$ 280,924,816 |

VRE has entered into the following capitalized lease financings to acquire rail cars.

Capitalized lease – Gallery IV (11 cars)

\$25,100,000 capitalized lease obligation \$965,679 due semi-annually, interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$23,721,785 \$ 20,775,627

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 12. 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 years ended June 30, 2010 and 2009, amounts expended for joint and jurisdictional transportation projects consisted of:

| | 2010 | 2009 |
|--|----------------------|----------------------|
| VRE support | \$ 11,074,197 | \$ 11,475,089 |
| Other jurisdictional projects and fees | 2,625,868 | 6,133,833 |
| Deposits to 1997 bond funds | 874,810 | 874,235 |
| Refunded IDA bonds/lease participation certificates debt service | 645,057 | 646,421 |
| | <u>\$ 15,219,932</u> | <u>\$ 19,129,578</u> |

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

Note 13. Risk Management

PRTC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to address these risks, including workers’ compensation and employee health and accidental insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. PRTC is indemnified from risk related to its bus/bus facility issues by virtue of its contract with First Transit, the third party bus services provider.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 14. Related Party Transactions

For the years ended June 30, 2010 and 2009, expenses incurred for legal services provided by Prince William County were \$39,000.

VRE reimburses PRTC for expenditures made on behalf of VRE. During 2010 and 2009, these expenditures included \$4,024,584 and \$3,948,543 of salary-related costs, respectively. In addition, VRE reimburses PRTC for direct labor and associated indirect costs incurred for services rendered under budgeted activities for VRE. These incurred staff support costs totaled \$92,345 and \$111,200 for PRTC during 2010 and 2009, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounts to \$3,224 and \$1,268 in 2010 and 2009, respectively. Amounts payable to PRTC were \$484,355 and \$1,119,232 at June 30, 2010 and 2009, respectively.

Note 15. Deferred Compensation Benefits

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

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

PRTC contributions to the deferred compensation plan for the years ended June 30, 2010 and 2009 were \$16,475 and \$16,850, respectively.

PRTC also offers a Governmental Money Purchase Plan (401a) to its Executive Director for deferred compensation purposes. PRTC contributions to the 401a for the years ended June 30, 2010 and 2009 were \$34,777 and \$36,112, respectively.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 16. Defined Benefit Pension Plan

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.70% of their average final compensation (“AFC”) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (“COLA”) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/publications/2009-annual-report.pdf> or obtained by writing the System’s Chief Financial Officer, P. O. Box 2500, Richmond, VA, 23218-2500.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 16. 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 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by PRTC for its employees. In addition, PRTC is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The PRTC contribution rate for the fiscal year ended June 30, 2010, was 11.49% of annual covered payroll.

PRTC's payroll for employees covered by the VRS for the years ended June 30, 2010, 2009, and 2008 was as follows:

| | 2010 | 2009 | 2008 |
|----------------|--------------|--------------|--------------|
| PRTC employees | \$ 2,649,083 | \$ 2,666,461 | \$ 2,542,499 |
| VRE employees | 3,023,072 | 2,967,956 | 2,769,945 |

Total payroll for the years ended June 30, 2010, 2009, and 2008 was as follows:

| | 2010 | 2009 | 2008 |
|----------------|--------------|--------------|--------------|
| PRTC employees | \$ 2,916,320 | \$ 2,986,896 | \$ 2,787,243 |
| VRE employees | 3,085,634 | 3,024,203 | 2,822,631 |

C. Annual Pension Cost (APC)

For fiscal year 2010, PRTC and VRE's annual pension cost of \$651,731 was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 include (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. PRTC's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

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

| Fiscal Year Ended | Annual Pension Cost | Percentage of APC Contributed | Net Pension Obligation |
|-------------------|---------------------|-------------------------------|------------------------|
| June 30, 2010 | \$ 651,731 | 100% | \$ - |
| June 30, 2009 | 647,394 | 100% | - |
| June 30, 2008 | 559,932 | 100% | - |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 16. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 97.33% funded. The actuarial accrued liability for benefits was \$6,996,387 and the actuarial value of assets was \$6,809,891, resulting in an unfunded actuarial accrued liability (UAAL) of \$186,496. The covered payroll (annual payroll of active employees covered by the plan) was \$5,743,627 and ratio of the UAAL to the covered payroll was 3.3%.

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

Note 17. Contingencies and Contractual Commitments

Fuel Contractual Commitments

As of June 30, 2010, PRTC has entered into contracts at various times in December 2009 through August 2010 to purchase fuel at set prices for delivery in July 2010 through October 2011. The total commitment is for 1,134,000 gallons of fuel at approximately \$2.6 million. The fuel will be used in the normal course of business and is not being purchased for resale.

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 18. Pending GASB Statement

At June 30, 2010, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by PRTC. The statement which might impact PRTC is GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Statement No. 59 will be effective for periods beginning after June 15, 2010.

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

REQUIRED SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|-----------------------------------|---|-----------------|------------------------------|--|
| June 30, 2009 | \$ 6,809,891 | \$ 6,996,387 | \$ 186,496 | 97.33% | \$ 5,743,627 | 3.25% |
| June 30, 2008 | 5,875,612 | 6,065,059 | 189,447 | 96.88% | 5,369,542 | 3.53% |
| June 30, 2007 | 4,861,087 | 4,962,766 | 101,679 | 97.95% | 5,189,808 | 1.96% |

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

SUPPLEMENTARY INFORMATION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SCHEDULE OF MEMBER JURISDICTIONS' FUNDS

Year Ended June 30, 2010

| | 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, 2009 | \$ 4,097,923 | \$ 1,323,292 | \$ 2,552,685 | \$ 13,397,425 | \$ 3,507,164 | \$ - | \$ 24,878,489 |
| Funds Received: | | | | | | | |
| Motor fuel tax | 1,347,261 | 1,788,008 | 689,703 | 11,345,652 | 3,943,817 | 1,202,074 | 20,316,515 |
| Other | - | 196,994 | - | 1,056,774 | - | - | 1,253,768 |
| Interest | 12,495 | 2,808 | 6,799 | 13,199 | 6,533 | 138 | 41,972 |
| Total funds received | 1,359,756 | 1,987,810 | 696,502 | 12,415,625 | 3,950,350 | 1,202,212 | 21,612,255 |
| Funds Disbursed: | | | | | | | |
| Direct transportation expenses: | | | | | | | |
| VRE capital support | 508,503 | 883,443 | 537,496 | 6,173,028 | 2,971,727 | - | 11,074,197 |
| Other projects | 1,078,183 | 370,050 | 131,923 | 42,235 | 1,003,477 | - | 2,625,868 |
| Deposits to 1997 bond fund | - | - | - | 874,810 | - | - | 874,810 |
| Debt service for refunded IDA bonds | - | - | - | 645,057 | - | - | 645,057 |
| Transfers to PRTC: | | | | | | | |
| Administrative expenses | - | 19,200 | 11,100 | 153,700 | 2,188 | - | 186,188 |
| OmniRide, OmniLink, Capital Improvement, Marketing | - | 240,600 | 159,200 | 10,253,600 | - | - | 10,653,400 |
| Total funds disbursed | 1,586,686 | 1,513,293 | 839,719 | 18,142,430 | 3,977,392 | - | 26,059,520 |
| Funds Available - June 30, 2010 | \$ 3,870,993 | \$ 1,797,809 | \$ 2,409,468 | \$ 7,670,620 | \$ 3,480,122 | \$ 1,202,212 | \$ 20,431,224 |

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, 2010. Total funds available reconcile to amounts reported on the statement of net assets as follows:

| | |
|---|----------------------|
| Cash and investments in pooled funds - member jurisdictions | \$ 17,142,978 |
| Due from other governments - Motor fuel tax revenue receipts (see Note 5) | 4,217,509 |
| Due from other governments - DRPT | 53,028 |
| Due to other governments - member jurisdictions | (982,291) |
| | <u>\$ 20,431,224</u> |

Note 2 - Expenses for other jurisdictional projects consist of:

| | City of Fredericksburg | City of Manassas | City of Manassas Park | County of Prince William | County of Stafford | County of Spotsylvania | Total |
|--|---------------------------|---------------------|-----------------------------|--------------------------------|-----------------------|---------------------------|---------------------|
| Road improvements/maintenance, traffic study | \$ 625,036 | \$ 86,750 | \$ 131,923 | \$ - | \$ 54,027 | \$ - | \$ 897,736 |
| Station maintenance, school bus purchase | 104,089 | - | - | - | - | - | 104,089 |
| Gainesville/Haymarket rail study match | - | - | - | 42,235 | - | - | 42,235 |
| Street signs, human services transportation, airport, professional services | 28,000 | - | - | - | 352,380 | - | 380,380 |
| Parking garage debt service, parking leases | 321,058 | 283,300 | - | - | - | - | 604,358 |
| FRED transit costs | - | - | - | - | 597,070 | - | 597,070 |
| | <u>\$ 1,078,183</u> | <u>\$ 370,050</u> | <u>\$ 131,923</u> | <u>\$ 42,235</u> | <u>\$ 1,003,477</u> | <u>\$ -</u> | <u>\$ 2,625,868</u> |

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2010**

| | State Grant Number | Expenditures |
|--|--|----------------------------|
| <u>Direct Payments:</u> | | |
| Virginia Department of Rail and Public Transportation: | | |
| Formula assistance | 72010-33 | \$ 3,841,776 |
| Ridesharing assistance | 71010-11; 72509-67 | 180,000 |
| Transportation intern | 71209-01 | 17,236 |
| TEIF Youth Outreach | 71410-02 | 38,116 |
| TMP Bus Service | 72509-61 | 2,055,663 |
| Capital - FY06 | 73006-22 | 98,575 |
| Capital - FY07 | 73007-26 | 78,099 |
| Capital - FY08 | 73008-09; 73008-10 | 860,106 |
| Capital - FY09 | 73009-61; 73009-64; 73009-66; 73009-67; 73009-72; 73009-73; 73009-74; 73109-47; 73109-48 | 978,326 |
| Capital - FY10 | 72510-20; 73010-74; 73010-75; 73010-76; 73010-79; 73010-80 | 673,627 |
| Capital- FY 11 | 73011-81 and pending | 3,378 |
| Capital - FY98 | 73098-02 | 62,965 |
| Capital - FY01 | 73001-21 | 177,539 |
| SmarTrip expansion program | 73501-52 | 9,681 |
| | | <u>9,075,087</u> |
| <u>Passthrough Payments:</u> | | |
| Virginia Department of Transportation: | | |
| Congestion Mitigation & Air Quality (CMAQ) | | <u>7,769</u> |
| Metropolitan Washington Council of Governments: | | |
| Congestion Mitigation & Air Quality (CMAQ) | | <u>1,831</u> |
| Total expenditures of State awards | | <u><u>\$ 9,084,687</u></u> |

COMPLIANCE SECTION

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

| Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number | Federal CFDA Number | Expenditures |
|---|------------------------|-----------------------------|
| <u>Direct Payments:</u> | | |
| Federal Transit Administration: | | |
| VA-04-0012 | 20.500 | \$ 213,978 |
| VA-05-0044 | 20.500 | 987,261 |
| VA-05-0043 | 20.500 | 1,624 |
| VA-90-X329 | 20.507 | 6,315 |
| VA-90-X353 | 20.507 | 3,330,127 |
| VA-95-X046 | 20.507 | 342,825 |
| VA-96-X009 ARRA | 20.507 | 402,208 |
| Pending Grant Federal | 20.507 | 2,304 |
| VA-03-0079 | 20.500 | 1,401,842 |
| VA-03-0094 | 20.500 | 641,120 |
| VA-03-0097 | 20.500 | 2,078,026 |
| VA-03-0102 | 20.500 | 850,381 |
| VA-03-0114 | 20.500 | 1,436,240 |
| VA-04-0015 | 20.500 | 54,015 |
| VA-05-0038 | 20.500 | 74,406 |
| VA-05-0041 | 20.500 | 2,115,156 |
| VA-05-0042 | 20.500 | 4,333,752 |
| VA-90-X106 | 20.500 | 721,154 |
| VA-90-X232 | 20.507 | 966,849 |
| VA-90-X240 | 20.507 | 121,853 |
| VA-90-X251 | 20.507 | 61,362 |
| VA-90-X269 | 20.507 | 66,896 |
| VA-90-X271 | 20.507 | 846,783 |
| VA-90-X284 | 20.507 | 113,770 |
| VA-90-X307 | 20.507 | 1,268,221 |
| VA-90-X329 | 20.507 | 948,740 |
| VA-90-X352 | 20.507 | 1,146,659 |
| VA-95-X017 | 20.507 | 1,141,547 |
| VA-95-X046 | 20.507 | 6,145,488 |
| VA-95-X057 | 20.507 | 2,596,345 |
| VA-96-X009 ARRA | 20.507 | 1,433,561 |
| Pending Grant Identification | 20.000 | 170,300 |
| Pending Grant Federal | 20.507 | 1,966,313 |
| | | <u>37,987,421</u> |
| <u>Passthrough Payments:</u> | | |
| Prince William County | | |
| National Capital Regional Transportation Planning Board (TPB) | 20.521 | <u>70,935</u> |
| Metropolitan Washington Council of Governments | | |
| Congestion Mitigation & Air Quality (CMAQ) | 20.505 | <u>1,415</u> |
| Virginia Department of Transportation | | |
| Congestion Mitigation & Air Quality (CMAQ) | 20.205 | <u>31,075</u> |
| DC Homeland Security and Emergency Mgmt Agency | | |
| Department of Homeland Security | 97.075 | <u>29,612</u> |
| Total expenditures of Federal awards | | <u><u>\$ 38,120,458</u></u> |

* Department of Homeland Security funds of \$15,309 are classified as deferred revenue on the Statement of Net Assets.

See Note to Schedule of Expenditures of Federal Awards.

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

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

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

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

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

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

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

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



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

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

We have audited the financial statements of the Potomac and Rappahannock Transportation Commission (the Commission), as of and for the year ended June 30, 2010, and have issued our report thereon dated October 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

PBGH, LLP

Harrisonburg, Virginia
October 26, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Potomac and Rappahannock Transportation Commission (the Commission), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that are applicable to each of its major Federal programs for the year ended June 30, 2010. The Commission's major Federal programs are identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

PBGH, LLP

Harrisonburg, Virginia
October 26, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Federal awards

Internal control over major programs:

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

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

| | | |
|--|-----------|--|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | _____ Yes | <input checked="" type="checkbox"/> No |
|--|-----------|--|

Identification of major programs:

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

Federal Transit Cluster:

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

Dollar threshold used to distinguish between type A and type B programs: \$1,143,612

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

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

A. Significant Deficiency in Internal Control

None Reported

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

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



The Ride That's Right For You