

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Change in Net Position.....	9
Statement of Cash Flows	10-11
Notes to Financial Statements.....	12-22

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Revenue Authority of Prince George's County, Maryland

Report on the Financial Statements

We have audited the accompanying statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows of the Revenue Authority of Prince George's County, Maryland as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Revenue Authority of Prince George's County, Maryland as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland

October 24, 2014

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This discussion and analysis of the Revenue Authority of Prince George's County (the Authority), a component unit of Prince George's County, Maryland, provides an overview of the financial activities for the fiscal year ended June 30, 2014. Please read this in conjunction with the Authority's basic financial statements, which begin on page 8.

Financial Highlights

- Cash and cash equivalents for the year ended June 30, 2014 was \$16,110,355.
- Assets exceeded liabilities by \$31,144,895 as of June 30, 2014. The largest component of the Authority's net position, about 39% or \$12,001,059, was invested in Capital Assets, such as Land; Property, Plant and Equipment; and Leasehold Improvements.
- Operating income for the year ended June 30, 2014 was \$2,686,415.

Using This Annual Report

This annual report consists of a series of financial statements: The Statement of Net Position, the Statement of Revenues, Expenses and Change in Net Position, and the Statements of Cash Flows.

The Statement of Net Position presents the financial position of the Authority on a full accrual historical cost basis. The Authority's net position is the difference between what the Authority owns and what the Authority owes. Increases or decreases in the Authority's net position are one indicator of whether the Authority's financial health is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Position presents the results of the activities over the course of the year showing how the net position changed during the year.

The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Summary of Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current assets	\$ 24,717,924	\$ 25,473,134
Noncurrent assets	<u>12,187,288</u>	<u>12,639,878</u>
Total assets	<u>36,905,211</u>	<u>38,113,012</u>
Current liabilities	5,586,822	6,984,431
Noncurrent liabilities	<u>173,494</u>	<u>164,709</u>
Total liabilities	<u>5,760,316</u>	<u>7,149,140</u>
Net investment in capital assets	12,001,059	12,496,673
Restricted (Note 5)	155,163	147,710
Unrestricted		
Designated (Note 12)	9,831,702	8,274,935
Undesignated	<u>9,156,971</u>	<u>10,044,554</u>
Total net position	<u>\$ 31,144,895</u>	<u>\$ 30,963,872</u>

The largest portion of the Authority's assets is cash and cash equivalents, which make up \$16,110,355 of total assets. The largest portion of the Authority's liabilities is the payable to Prince George's County, Maryland (the County), which represents \$4,131,437 of the Authority's liabilities. Net position increased by \$2,681,023 of which \$2,500,000 will be contributed to the County for fiscal year 2014.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Summary of Statement of Revenues, Expenses and Change in Net Position

	<u>2014</u>	<u>2013</u>
Total operating revenues	\$ 15,903,555	\$ 14,152,440
Total operating expenses	<u>(13,217,140)</u>	<u>(22,713,998)</u>
Operating income (loss)	2,686,415	(8,561,558)
Net non-operating revenues	<u>(5,392)</u>	<u>1,240</u>
Change in net position	<u>2,681,023</u>	<u>(8,560,318)</u>
Contribution to the County	<u>(2,500,000)</u>	<u>(2,000,000)</u>
Net position, beginning of year	<u>30,963,872</u>	<u>41,524,190</u>
Net position, end of year	<u><u>\$ 31,144,895</u></u>	<u><u>\$ 30,963,872</u></u>

The Authority's two major areas of revenue collections are the parking operations and rent income from the County. Revenues from parking operations consist of collections of daily and monthly parking fees, parking meters, and parking violations. Revenues from parking operations were \$14,433,793 in fiscal year 2014. Rent income from Prince George's County was \$660,000 in fiscal year 2014.

The Capital Centre project revenues from leased property was \$127,262 in fiscal year 2014.

Other income was \$138,452 in fiscal year 2014.

Management fee income related to the Red Light Camera Enforcement Program and False Alarm Reduction Unit were, \$364,763 and \$65,548, respectively in fiscal year 2014. The management fee earned was 12.5% of gross revenues for both programs.

Management fee income related to the Automated Speed Enforcement Program was \$113,736 in fiscal year 2014. The management fee earned was 2% of net revenues for the program.

The Authority's three major areas of expense are parking operations, general and administrative expenses, and depreciation and amortization expenses. Expenses related to the parking operations for fiscal year 2014 were \$9,847,707.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

General and administrative expenses were \$2,579,921 which primarily consist of the salaries of administrative personnel and related overhead and facilities expenses. As a percentage of total revenues, general and administration expenses were 16.22% for fiscal year 2014.

Depreciation and amortization expenses were \$639,512 in fiscal year 2014.

Non-operating revenues (expenses) consists of interest income on short-term investments and interest charges on long-term debt. Net non-operating expenses were \$5,392 in fiscal year 2014.

The Authority will contribute an additional \$2,500,000 to the County from its unrestricted assets for fiscal year 2014. This contribution will be used to assist the County in meeting its commitment of providing services to County residents.

Capital Assets

The Authority's capital asset, net of accumulated depreciation and amortization, are presented in the following table as of June 30, 2014 and 2013.

	Capital Assets as of June 30	
	<u>(net of accumulated depreciation/amortization)</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 5,307,744	\$ 5,307,744
Office building	4,077,079	4,151,096
Parking structures	2,429,854	2,826,698
Parking equipment	17,621	12,413
Office equipment	78,802	87,094
Meters	18,962	22,520
Vehicles	229,826	179,943
Leasehold improvements	27,400	52,370
Total	<u>\$ 12,187,288</u>	<u>\$ 12,639,878</u>

Total additions for the year were \$199,011. Total depreciation and amortization expenses for the year were \$639,512.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Debt

Debt includes obligations for equipment and vehicles under capital leases in the amount of \$186,229.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and show the Authority's accountability for the money it earns. If you have any questions about this report or need additional financial information, please contact us at 1300 Mercantile Lane, Suite 108, Largo, Maryland 20774.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Assets

Current assets	
Cash and cash equivalents (Note 2)	\$ 16,110,355
Parking and other receivables	8,375,867
Other current assets	<u>231,702</u>
Total current assets	<u>24,717,924</u>
Capital assets	
Land, not being depreciated (Note 3)	5,307,744
Capital assets being depreciated, net (Note 3)	<u>6,879,544</u>
Total noncurrent assets	<u>12,187,288</u>
Total assets	<u>36,905,211</u>

Liabilities and Net Position

Current liabilities	
Accounts payable and accrued expenses	989,696
Deferred revenue	44,369
Due to Prince George's County (Note 6)	4,131,437
Due to WMATA (Note 7)	146,853
Due to others	163,144
Capital lease obligation, current portion (Note 4)	<u>111,324</u>
Total current liabilities	<u>5,586,822</u>
Noncurrent liabilities	
Deposits held	98,589
Capital lease obligation, net of current portion (Note 4)	<u>74,905</u>
Total noncurrent liabilities	<u>173,494</u>
Total liabilities	<u>5,760,316</u>
Net Position	
Net investment in capital assets	12,001,059
Restricted (Note 5)	155,163
Unrestricted	
Designated (Note 12)	9,831,702
Undesignated	<u>9,156,971</u>
Total Net Position	<u>\$ 31,144,895</u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues

Parking operations (revenues)	\$ 14,433,793
Rent income from Prince George's County (Note 6)	660,000
Capital Centre project	127,262
Management fee - red light	364,763
Management fee - false alarm	65,548
Management fee - automated speed enforcement	113,736
Other	<u>138,452</u>

Total operating revenues 15,903,555

Operating Expenses

Parking operations (expenses)	9,847,707
General and administrative	2,579,921
Depreciation and amortization (Note 3)	639,512
Rent payment to Prince George's County (Note 6)	<u>150,000</u>

Total operating expenses 13,217,140

Operating income 2,686,415

Non-Operating Revenues (Expenses)

Interest income	6,218
Interest expense	<u>(11,611)</u>

Net non-operating expenses (5,392)

Change in net position 2,681,023

Contribution to the County (Note 6) (2,500,000)

Net position, beginning of year 30,963,872

Net Position, End of Year \$ 31,144,895

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities

Cash received from operations	\$ 18,283,856
Cash paid to suppliers	(16,382,386)
Cash paid to employees	(3,763,318)
Cash paid to board members	<u>(25,600)</u>

Net cash used by operating activities	<u>(1,887,448)</u>
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Cash flows from capital and related financing activities

Purchases of capital assets	(39,542)
Principal paid on capital leases and notes payable	(116,445)
Interest paid on debt	<u>(11,611)</u>

Net cash used in capital and related financing activities	<u>(167,598)</u>
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Cash flows from investing activities

Investment earnings	<u>6,218</u>
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Net increase in cash and cash equivalents	(2,048,828)
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Cash and cash equivalents, beginning of year	<u>18,159,183</u>
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Cash and cash equivalents, end of year	<u><u>\$ 16,110,355</u></u>
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Non-cash capital and related financing activities:

Acquisition of capital lease	<u><u>\$ 159,469</u></u>
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**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 2,686,415
Adjustments to reconcile operating income to net cash used in operating activities	
Contribution to the County	(2,500,000)
Loss on disposal of assets	12,090
Depreciation and amortization	639,512
Recovery of bad debt expense	4,546,389
Effect of changes in operating assets and liabilities:	
Accounts receivable	(5,806,300)
Other current assets	(33,707)
Accounts payable and accrued expenses	568,569
Deferred revenue	-
Due to Prince George's County	(1,902,828)
Due to WMATA	8,441
Due to others	(106,029)
	<hr/>
Net cash used by operating activities	\$ (1,887,448)
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**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

General Information

The Revenue Authority of Prince George's County (the Authority) is a body corporate and politic established under the authority of Maryland law passed in 1996. In 1997, the County Council of Prince George's County, Maryland (the County) enacted legislation to create a separate entity whose purpose is to exercise its powers for projects within the boundary lines of the County devoted wholly or partially for public uses, good, or general welfare, and to stimulate employment and economic growth. The Authority is a component unit of the County. The Authority has seven board members and two ex-officio members. The County Executive appoints five board members and the County Council appoints two board members. The County Executive and County Council have oversight responsibility for approval of the Authority's operating and capital improvement budgets.

Basis of Accounting

The Authority is an enterprise fund and prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Authority's activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Authority applies all relevant GASB pronouncements.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are revenues generated from its parking operations. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid instruments, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents, except for the liquid instruments held as part of investments under the Maryland Local Government Investment Pool (the MLGIP).

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consists primarily of amounts due from fees for parking operations. The allowance method is used to determine uncollectible accounts receivable. The allowance is based on management's analysis of specific accounts. An allowance for doubtful accounts has been established based on a pro-rated evaluation of aged citations as well as whether the citations have Maryland State tags, or Out-of-State tags. The allowance for doubtful accounts was \$30,658,556 at June 30, 2014. The Authority will write-off citations when they are deemed uncollectable and have aged out for 10 years. The Authority did not write off any citation in fiscal year 2014 that had aged over 10 years.

Capital Assets

Capital assets are recorded at cost. The Authority capitalizes all expenditures for property and equipment over \$5,000. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 2 to 70 years, or the lesser of the useful life of the asset or the lease period for capital leases. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The Authority did not have any deferred outflows or deferred inflows at June 30, 2014. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowing used for the acquisition of those assets. Unrestricted net position represents resources available to meet the general operations of the Authority and may be used to meet current expenses for any purpose. Net position is reported as restricted where there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations. Unrestricted net position is reported as designated where there are limitations imposed by the Board of Directors.

Revenues

Revenues are recognized during the period in which the revenues are earned.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Authority to concentrations of credit risk consist principally of investments held at creditworthy financial institutions. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade and other receivables is limited because the Authority deals with a large number of customers.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following at June 30, 2014.

Cash deposits	\$ 8,696,762
Repurchase agreements	187,312
HarborBank Certificate of Deposit	103,182
Maryland Local Government Investment Pool	<u>7,123,099</u>
Total cash and cash equivalents	<u>\$ 16,110,355</u>

Investment Policy

The Authority's primary objective for the management of its funds is the protection of investment principal in the overall portfolio through the use of diversification and third-party collateralization while maintaining sufficient liquidity to meet all cash flow requirements. The secondary objective is to maximize investment return consistent with risk limitations.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The Authority is authorized to invest in U.S. Government Securities, U.S. Agency Securities, repurchase agreements, certificates of deposit and time deposits, Pooled Investments created under the Maryland Local Government Investment Pool (the MLGIP) and money market mutual funds as stipulated in the Authority's investment policy.

The Revenue Authority participates in the MLGIP. The MLGIP is an external investment pool that is not subject to regulation by the SEC. However, the pool is governed by Article 95 Section 22G of the Annotated Code of Maryland and under the control of the State Treasurer, subject to oversight by the MLGIP Advisory Committee. The MLGIP is rated AAA by Standard and Poor's which is the highest rating for money market funds. All securities in the MLGIP are valued daily on an amortized cost basis, which approximates market value.

Credit Risk

Credit risk involves disclosing the credit quality of investments in debt securities as described by nationally recognized rating agencies.

The Authority's cash balances consist of demand and money market accounts. These accounts are maintained at federally insured commercial banks. Excess cash is invested in overnight repurchase agreements (Repos) with a commercial bank. Repos are secured by U.S. Treasury or Agency securities. These obligations are rated AAA by Moody's and AAA by Standard and Poor's. The collateral, in an amount not less than 102% of the fair market value of the securities, is held by the bank's trust department in the Authority's name. In addition, the Authority has funds in the Maryland Local Government Investment Pool (MLGIP), which are cash equivalents. Cash equivalents are reported at their fair market value, which is equal to the carrying value at June 30, 2014.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits that are in the possession of an outside party. Custodial credit risk for investments is the risk that securities are uninsured, unregistered, and held by the counterparty, or by its trust department or agent, but not in the Authority's name. All funds deposited by the Authority are held by independent third party financial institutions (custodians) and are secured by collateral that is above the level required by the Public Funds law of the State of Maryland (102%). As of June 30, 2014, there were no deposits or investments exposed to custodial credit risk.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3: CAPITAL ASSETS

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 5,307,744	\$ -	\$ -	\$ 5,307,744
Capital assets being depreciated/amortized:				
Office building	5,181,165	-	-	5,181,165
Parking structures	11,681,833	-	-	11,681,833
Parking equipment	484,072	9,000	-	493,072
Office equipment	427,549	30,542	-	458,091
Meters	197,773	-	-	197,773
Vehicles	517,856	159,469	100,252	577,073
Leasehold improvements	<u>1,563,135</u>	<u>-</u>	<u>-</u>	<u>1,563,135</u>
Total capital assets being depreciated:	<u>20,053,383</u>	<u>199,011</u>	<u>100,252</u>	<u>20,152,142</u>
Less accumulated depreciation/amortization for:				
Office building	1,030,069	74,017	-	1,104,086
Parking structures	8,855,135	396,844	-	9,251,979
Parking equipment	471,659	3,792	-	475,451
Office equipment	340,455	38,834	-	379,289
Meters	175,253	3,558	-	178,811
Vehicles	337,913	97,496	88,162	347,246
Leasehold improvements	<u>1,510,765</u>	<u>24,971</u>	<u>-</u>	<u>1,535,736</u>
Total accumulated depreciation and amortization	<u>12,721,249</u>	<u>639,512</u>	<u>88,162</u>	<u>13,272,599</u>
Total capital assets being depreciated:	<u>7,332,134</u>	<u>(440,501)</u>	<u>12,090</u>	<u>6,879,544</u>
Net capital assets	<u><u>\$ 12,639,878</u></u>	<u><u>\$ (440,501)</u></u>	<u><u>\$ 12,090</u></u>	<u><u>\$ 12,187,288</u></u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4: CAPITAL LEASES

The Authority leases furniture, equipment and fifteen vehicles under thirteen separate capital leases expiring by the year 2017. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their lease terms or their estimated productive lives.

Amortization of the assets under the capital leases is included in depreciation and amortization expense for fiscal year 2014. Following is a summary of the property held under capital leases at June 30, 2014:

Vehicles	\$ 185,941
Furniture and equipment	20,580
	<u>206,521</u>
Less: accumulated amortization	<u>(24,971)</u>
Total	<u><u>\$ 181,550</u></u>

Capital lease activity for the years ended June 30, 2014 is as follows:

<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
\$ 143,205	\$ 159,469	\$ (116,445)	\$ 186,229	\$ 111,324

Future minimum lease payments, by year and in the aggregate, under the capital leases are as follows:

Year ending June 30,	
2015	\$ 118,579
2016	65,037
2017	12,674
Total minimum lease payments	<u>196,289</u>
Less: amount representing interest	<u>(10,060)</u>
Present value of future minimum lease payments	<u><u>\$ 186,229</u></u>
Due within one year	\$ 111,324
Long-term portion	<u>74,905</u>
Future minimum lease payments	<u><u>\$ 186,229</u></u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5: RESTRICTIONS OF NET ASSETS

	2014
Net assets are restricted for the following purposes:	
College Park Transit District Overlay Zone	\$ 101,410
Closed Circuit Television Repair & Replacement Reserves	53,753
Total restricted net assets	\$ 155,163

NOTE 6: RELATED PARTY TRANSACTIONS

Prince George's County (Parking Facilities Lease)

On April 16, 1990, the Authority executed an agreement effective July 1, 1988 to lease several parking facilities from the County. On July 1, 1994, the terms of the agreement were amended to extend the term of the agreement from June 30, 1993 to June 30, 2014. The agreement automatically renews annually. As part of this agreement, the County assigned 366 in-service parking meters to the Authority. Under the terms of the lease agreement, the Authority is required to maintain and operate the parking facilities and meters. The Authority is entitled to charge patrons reasonable rates and fees, which are subject to County approval.

The Authority has agreed to pay the County an annual rent of \$150,000 plus the net revenue earned from the facilities and meters after deducting all related expenses and any reserves for future maintenance and capital improvements. The lease renews automatically unless either party provides written notice of termination.

For the year ended June 30, 2014, the Authority agreed to pay to the County \$850,000 for shared parking fine revenue. Additionally, the Authority agreed to pay the County an additional \$2,500,000, which was transferred from unrestricted reserves.

Prince George's County (Construction and Parking Facility Management Agreement)

The Authority and the County have entered into a management agreement for the Hyattsville Justice Center garage. Under the terms of this agreement, the Authority was responsible for the design and financing of the facility's construction; however, the agreement provides that the County shall serve as an agent of the Authority for the administration of all design and construction

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6: RELATED PARTY TRANSACTIONS (Continued)

contracts and, as such, the County managed the construction. The Authority is obligated to maintain and operate the Justice Center garage in accordance with the Lease Agreement discussed below. The Authority is responsible for collecting all fees received from the public for the use of the facility and payment of all operating expenses. The County has agreed to reimburse the Authority for all deficits arising from the operation of this facility; conversely, the Authority will pay the County any net income as defined in the agreement. In addition, the County has agreed to pay the Authority a management fee of \$90,000 annually for the first ten years after completion, \$115,000 annually for years 11 through 18, and a mutually agreed upon amount thereafter. Pursuant to this agreement, the Authority received a management fee of \$115,000 for the year ended June 30, 2014.

Prince George's County (Hyattsville Justice Center Lease Agreement)

The Authority and the County also entered into a lease agreement dated May 1, 1986 (the Lease Agreement) wherein the County has agreed to lease the Justice Center from the Authority. The initial term ended on the date on which all outstanding principal and interest of the Series 1992 Bonds was repaid, which was May 1, 2005. The lease term may be extended for four additional ten-year periods.

For the year ended June 30, 2008, the Authority entered into an operating and management agreement with the County for the payment of rent. Under the terms of this agreement, the Authority is entitled to the reimbursement of all costs and an administrative fee equal to 10% of such costs. Preceding this agreement, the County agreed to pay rent to the Authority equal to the amount of principal and interest payments due on the Series 1992 Bonds. Pursuant to the agreements, the County paid rent of \$660,000 for the year ended June 30, 2014.

In addition to this rent, the County is obligated to pay an annual fee to the Authority. This annual fee was \$100,000 per year beginning May 1986 until substantial completion on August 1, 1990, \$30,000 per year for the 10 years after completion, \$40,000 per year for the 11th through 18th years from completion, and \$50,000 per year thereafter. Pursuant to this agreement, the Authority received an annual fee of \$50,000 for the year ended June 30, 2014.

The County is also obligated to pay certain administrative expenses associated with the Justice Center.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6: RELATED PARTY TRANSACTIONS (Continued)

Due to Prince George's County consisted of the following at June 30, 2014:

Annual fines distribution	\$ 850,000
Annual facilities lease	150,000
Annual County contribution	2,500,000
Automated speed enforcement revenue - Q4	1,211,572
Red light camera enforcement revenue - Q4	266,179
False alarm reduction unit revenue - Q4	(4,264)
Rent receivable, July 1, 2013 - June 30, 2014	(660,000)
HJC garage management fee due to the Authority	(115,000)
HJC annual fee due to the Authority	(50,000)
Payment to Department of Corrections	(17,050)
Total due to Prince George's County	<u><u>\$ 4,131,437</u></u>

**NOTE 7: OPERATING AND MANAGEMENT AGREEMENT WITH
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY**

The Authority and the County entered into an operating and management agreement with the Washington Metropolitan Area Transit Authority (WMATA), dated January 1, 1987, covering 400 spaces in the New Carrollton parking facility. Under the terms of this agreement, the Authority is entitled to a management fee and reimbursement of certain costs equal to the sum of (a) a fixed annual fee of \$15 per space (b) 40% of operation and maintenance costs and (c) 25% of attendant costs. This management fee is to be deducted from any revenue generated by these 400 spaces. The amount due to WMATA for the year ended June 30, 2014 was \$146,853.

NOTE 8 GROUND LEASE

The Authority entered into a long term ground lease agreement, approximately 70 years, as landlord, with Capital Centre LLC, as tenant, on April 17, 2000 and amended on August 24, 2001. The agreements were consented to and approved by Prince George's County. The property consists of approximately 490,625 gross leasable square feet, upon which a shopping center known as Boulevard at the Capital Center was constructed.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 GROUND LEASE (Continued)

Under the agreement, the tenant pays base rent in accordance with a base rent schedule. In addition, the tenant pays increased square footage base rent when improvements exceed two hundred-seventy thousand (275,000) usable square feet. Ground lease rent and additional base rent for fiscal year 2014 is \$127,262.

NOTE 9: COMMITMENTS

Operating Leases

The Authority leases office space, vehicles and miscellaneous office equipment under non-cancelable operating leases, which expire at various times through 2016.

Effective November 1, 2010, the Authority renegotiated its lease with Mercantile Place #1 Limited Partnership for office space in Largo, Maryland. The lease term is 6 years terminating on October 31, 2015. The Authority is also required to pay the lessor a maintenance fee and a portion of real estate taxes related to the property.

The Authority entered into four new lease agreements with Mercantile Place #1 Limited Partnership for office space in Largo, Maryland, for a period of 6 years commencing on November 1, 2010 and terminating on October 2015.

The Authority entered into a lease agreement with the Maryland Transit Administration (MTA) for the New Carrollton East lot for a period of two years commencing on March 1, 2012 and terminating on February 29, 2014. The Authority has the option to renew the lease for an additional term of one year commencing at the expiration of the initial two-year term. The Authority executed the one year extension to terminate on February 29, 2015. For the year ended June 30, 2014, the Authority paid \$100,010.

Minimum future rental payments under non-cancelable operating leases are as follows:

<u>Year ending June 30,</u>	
2015	\$ 462,326
2016	159,037
2017	15,614
	<hr/>
Future minimum lease payments	\$ 636,976
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Rent expense for the year ended June 30, 2014 was \$321,461.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10: BENEFIT PLAN

The Authority participates in the ADP Prototype 401(k) Plan. All employees are eligible for the Plan. The Authority is required to make contributions to the Plan equal to 5% of each eligible employee's gross salary.

For the year ended June 30, 2014, total contributions by the Authority and employees to the retirement plan were \$151,461.

NOTE 11: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance covering these risks. Settled claims resulting from these risks have not exceeded insurance coverage for the past three years.

NOTE 12: RESERVES FOR SPECIAL PROJECTS AND FUTURE MAINTENANCE, REPAIR AND REPLACEMENT COSTS

In fiscal year 2007, the Revenue Authority established reserves for special projects and for future maintenance, repair and replacement costs. The reserve is reported as a designated unrestricted fund balance. The reserve for special projects is to fund future projects which promote the public interest and economic development of Prince George's County. The reserve for future maintenance, repair and replacement costs is for non-recurring maintenance, repair and replacement costs of capital facilities and equipment.

Reserves for special projects and future maintenance totaled \$6,135,098 and \$3,696,604 respectively in fiscal year 2014.