

REVENUE AUTHORITY OF PRINCE GEORGE'S COUNTY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Revenue Authority of Prince George's County, Maryland
Largo, 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 (the Authority), a component unit of Prince George's County, Maryland as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 Authority as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 November 20, 2017 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 solely 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 the effectiveness of the Authority's 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
November 20, 2017

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017. 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, 2017 was \$13,372,416.
- Assets exceeded liabilities by \$39,057,341 as of June 30, 2017. A significant component of the Authority's net position, about 30% or \$12,065,033, was recorded as restricted, which consists of funds for land acquisitions in Suitland, CCTV reserves, and Series 2016 bond reserves.
- Operating income for the year ended June 30, 2017 was \$4,027,632.

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 Statements 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, 2017**

Summary of Statement of Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 41,714,363	\$ 41,961,754
Noncurrent assets	<u>28,500,380</u>	<u>22,295,422</u>
Total assets	<u>70,214,743</u>	<u>64,257,176</u>
Current liabilities	2,756,976	2,329,252
Noncurrent liabilities	<u>28,400,426</u>	<u>28,319,363</u>
Total liabilities	<u>31,157,402</u>	<u>30,648,615</u>
Net investment in capital assets	2,980,091	14,215,560
Restricted (Note 5)	12,065,033	2,061,270
Unrestricted		
Equity investment in Joint Venture (Note 15)	3,708,625	-
Designated (Note 12)	5,348,278	6,579,060
Undesignated	<u>14,955,314</u>	<u>10,752,671</u>
Total Unrestricted	<u>24,012,217</u>	<u>17,331,731</u>
Total net position	<u>\$ 39,057,341</u>	<u>\$ 33,608,561</u>

The largest portion of the Authority's assets is land, which make up \$19,448,259 of total assets. The largest portion of the Authority's liabilities is the bonds payable, which represents \$28,000,000 of the total liabilities. Net position increased by \$5,448,780 for fiscal year 2017.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 19,310,030	\$ 16,910,527
Total operating expenses	<u>(15,282,398)</u>	<u>(14,737,403)</u>
Operating income	4,027,632	2,173,124
Net non-operating revenues (loss)	(1,192,579)	(177,265)
Contribution from the County	<u>10,000,000</u>	<u>-</u>
Change in net position	<u>12,835,053</u>	<u>1,995,859</u>
Land and building transfer	<u>(7,386,273)</u>	<u>(2,500,000)</u>
Net position, beginning of year	<u>33,608,561</u>	<u>34,112,702</u>
Net position, end of year	<u>\$ 39,057,341</u>	<u>\$ 33,608,561</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 \$16,840,305 in fiscal year 2017. Rent income from Prince George's County was \$660,000 in fiscal year 2017.

The Capital Centre project revenue from leased property was \$163,410 in fiscal year 2017.

Management fee income related to the Red Light Camera Enforcement Program and False Alarm Reduction Unit (FARU) were, \$751,367 and \$55,698, respectively in fiscal year 2017. The management fee earned was 12.5% of gross revenues for both programs.

Management fee income related to the Automated Speed Enforcement Program was \$63,656 in fiscal year 2017. The management fee earned was 2% of net revenues for the program.

Other income was \$775,594 in fiscal year 2017. That amount included rental income of \$354,319 from the Suitland Shopping Center tenants.

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 2017 were \$11,908,923.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General and administrative expenses were \$2,470,535, which primarily consists of the salaries of administrative personnel and related overhead and facilities expenses. As a percentage of total operating revenues, general and administration expenses were 12.79% for fiscal year 2017.

Depreciation and amortization expenses were \$752,940 in fiscal year 2017.

Rental expenses to Prince George's County for fiscal year 2017 were \$150,000.

Non-operating revenues (expenses) consist of interest income on short-term investments and interest charges on long-term debt. Net non-operating expenses were \$1,192,579 in fiscal year 2017.

The Authority received a supplemental capital improvement program appropriation from Prince George's County with Resolution CR-51-2017 for \$10,000,000 in fiscal year 2017.

The Authority contributed 69.02 acres of land with a book value of \$3,500,400 and a 49,955 sq. ft. building known as 821 Capital Centre Blvd. with a book value of \$3,885,873 towards the development of the Regional Medical Center in fiscal year 2017.

Capital Assets

The Authority's capital asset, net of accumulated depreciation and amortization, are presented in the following table as of June 30, 2017 and 2016.

	Capital Assets as of June 30	
	<u>(net of accumulated depreciation/amortization)</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 19,448,259	\$ 12,705,652
Office building	-	3,929,049
Parking structures	1,234,646	1,633,826
Parking equipment	17,770	43,272
Office equipment	67,710	65,030
Meters	77,210	54,316
Vehicles	422,330	313,729
Leasehold improvements	365,174	391,892
Total	<u>\$ 21,633,099</u>	<u>\$ 19,136,766</u>

Total additions for the year were \$10,638,323. Total depreciation and amortization expenses for the year were \$752,940.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Debt

Debt includes obligations for equipment and vehicles under capital leases in the amount of \$359,922.

The Authority issued \$28,000,000 in Maryland Special Obligation Bonds titled as Suitland-Naylor Road Project – Series 2016 bonds in fiscal year 2016. The County has approved the pledge of Tax Increment Revenues to satisfy the principal and interest owed on the bonds. A total of \$15,538,559 of the bond proceeds were utilized in 2017 to acquire additional parcels of land in the Suitland area for a redevelopment project.

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
JUNE 30, 2017**

Assets

Current assets

Cash and cash equivalents (Note 2)	\$ 13,372,416
Parking and other receivables	13,201,456
Due from Prince George's County	10,181,942
Notes Receivable (Note 13)	4,800,000
Receivable from bond funds	5,000
Other current assets	<u>153,549</u>

Total current assets 41,714,363

Non-Current assets

Notes Receivable (Note 13)	3,158,656
Equity investment in Joint Venture (Note 15)	3,708,625
Land, not being depreciated (Note 3)	19,448,259
Capital assets being depreciated, net (Note 3)	<u>2,184,840</u>

Total noncurrent assets 28,500,380

Total assets 70,214,743

Liabilities and Net Position

Current liabilities

Accounts payable and accrued expenses	1,286,475
Due to WMATA (Note 7)	50,197
Due to others	573,395
Capital lease obligation, current portion (Note 4)	159,721
Bond interest payable	<u>687,188</u>

Total current liabilities 2,756,976

Noncurrent liabilities

Deposits held	31,444
Bonds payable (Note 14)	28,168,781
Capital lease obligation, net of current portion (Note 4)	<u>200,201</u>

Total noncurrent liabilities 28,400,426

Total liabilities 31,157,402

Net Position

Net investment in capital assets	2,980,091
Restricted (Note 5)	12,065,033
Unrestricted:	
Equity investment in Joint Venture (Note 15)	3,708,625
Designated (Note 12)	5,348,278
Undesignated	<u>14,955,314</u>
Total Unrestricted	<u>24,012,217</u>

Total Net Position \$ 39,057,341

The accompanying notes are an integral part of these financial statements.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY**
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating Revenues	
Parking operations	\$ 16,840,305
Rent income from Prince George's County (Note 6)	660,000
Capital Centre project	163,410
Management fee - red light	751,367
Management fee - false alarm	55,698
Management fee - automated speed enforcement	63,656
Other	<u>775,594</u>
Total operating revenues	<u>19,310,030</u>
Operating Expenses	
Parking operations	11,908,923
General and administrative	2,470,535
Depreciation and amortization (Note 3)	752,940
Rent payment to Prince George's County (Note 6)	<u>150,000</u>
Total operating expenses	<u>15,282,398</u>
Operating income	<u>4,027,632</u>
Non-Operating Revenues (Expenses)	
Interest income	191,060
Interest expense	<u>(1,383,639)</u>
Net non-operating revenues	<u>(1,192,579)</u>
Change in net position before transfers	2,835,053
Contribution from the County (Note 6)	10,000,000
Land and Building transfer (Note 8)	<u>(7,386,273)</u>
Change in net position	5,448,780
Net position, beginning of year	<u>33,608,561</u>
Net Position, End of Year	<u><u>\$ 39,057,341</u></u>

The accompanying notes are an integral part of these financial statements.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities	
Cash received from operations	\$ 10,134,770
Cash paid to suppliers	(6,876,413)
Cash paid to employees	(3,978,904)
Cash paid to board members	<u>(51,000)</u>
Net cash used by operating activities	<u>(771,547)</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(134,084)
Land purchase	(6,742,607)
Principal paid on capital leases and notes payable	(155,298)
Interest paid on debt	<u>(1,000,593)</u>
Net cash used by capital and related financing activities	<u>(8,032,582)</u>
Cash flows from investing activities	
Purchase of equity investment	(3,708,625)
Loan disbursement	(4,800,000)
Investment earnings	<u>191,060</u>
Net cash used by investing activities	<u>(8,317,565)</u>
Net decrease in cash and cash equivalents	(17,121,694)
Cash and cash equivalents, beginning of year	<u>30,494,110</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,372,416</u></u>
Non-cash capital and related financing activities:	
Acquisition of capital lease	<u><u>\$ 258,457</u></u>

The accompanying notes are an integral part of these financial statements.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 4,027,632
Adjustments to reconcile operating income to net cash used in operating activities	
Depreciation and amortization	752,940
Bad debt expense	(3,673,853)
Effect of changes in operating assets and liabilities:	
Accounts receivable	(5,519,425)
Other current assets	(46,788)
Accounts payable and accrued expenses	259,818
Deferred revenue	(149,180)
Due to Prince George's County	3,463,753
Due to WMATA	10,824
Due to others	84,853
Deposits Held	17,879
	<hr/>
Net cash used by operating activities	\$ (771,547)
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The accompanying notes are an integral part of these financial statements.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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. 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, 2017**

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 \$38,817,720 at June 30, 2017. The Authority will write-off citations when they are deemed uncollectable and have aged out for 10 years. The Authority wrote off \$1,743,232 of citations in fiscal year 2017 that had aged over 10 years.

Capital Assets

Capital assets are recorded at cost. The Authority capitalizes all expenditures for property and equipment over \$500. 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, 2017. 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, 2017**

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, 2017.

Cash deposits	\$ 1,200,524
Repurchase agreements	1,551,024
HarborBank Certificate of Deposit	103,492
BNY Mellon - Bond Trustee*	7,075,695
Maryland Local Government Investment Pool	<u>3,441,681</u>
Total cash and cash equivalents	<u>\$ 13,372,416</u>

*Restricted Cash

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, 2017**

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, which 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. 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. 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, 2017.

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, 2017, there were no deposits or investments exposed to custodial credit risk.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3: CAPITAL ASSETS

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 12,705,652	\$ 10,243,007	\$ 3,500,400	\$ 19,448,259
Capital assets being depreciated/amortized:				
Office building	5,181,165	-	5,181,165	-
Parking structures	11,681,833	-	-	11,681,833
Parking equipment	549,904	1,728	5,425	546,207
Office equipment	526,909	50,601	-	577,510
Meters	235,461	37,852	-	273,313
Vehicles	756,849	286,199	145,950	897,098
Leasehold improvements	2,000,308	18,936	-	2,019,244
Total capital assets being depreciated:	<u>20,932,429</u>	<u>395,316</u>	<u>5,332,540</u>	<u>15,995,205</u>
Less accumulated depreciation/amortization for:				
Office building	1,252,116	43,176	1,295,292	-
Parking structures	10,048,007	399,179	-	10,447,186
Parking equipment	506,632	27,229	5,424	528,437
Office equipment	461,879	47,921	-	509,800
Meters	181,145	14,958	-	196,103
Vehicles	443,120	174,822	143,174	474,768
Leasehold improvements	1,608,416	45,655	-	1,654,071
Total accumulated depreciation and amortization	<u>14,501,315</u>	<u>752,940</u>	<u>1,443,890</u>	<u>13,810,365</u>
Total capital assets being depreciated:	<u>6,431,114</u>	<u>(357,624)</u>	<u>3,888,650</u>	<u>2,184,840</u>
Net capital assets	<u><u>\$ 19,136,766</u></u>	<u><u>\$ 9,885,383</u></u>	<u><u>\$ 7,389,050</u></u>	<u><u>\$ 21,633,099</u></u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4: CAPITAL LEASES

The Authority leases furniture, equipment and twenty-two vehicles under eight separate capital leases expiring by the year 2022. 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 2017.

Capital lease activity for the years ended June 30, 2017 is as follows:

<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
\$ 256,763	\$ 258,457	\$ (155,298)	\$ 359,922	\$ 159,721

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

Year ending June 30,	
2018	\$ 174,308
2019	109,207
2020	60,837
2021	31,625
2022	<u>11,182</u>
Total minimum lease payments	387,159
Less: amount representing interest	<u>(27,237)</u>
Present value of future minimum lease payments	<u><u>\$ 359,922</u></u>
Due within one year	\$ 159,721
Long-term portion	<u>200,201</u>
Future minimum lease payments	<u><u>\$ 359,922</u></u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5: RESTRICTIONS OF NET ASSETS

	2017
Net assets are restricted for the following purposes:	
Bond Reserve Fund for Series 2016 bonds	\$ 2,000,000
County Supplement for Suitland Land Acquisitions	10,000,000
Closed Circuit Television Repair & Replacement Reserves	65,033
Total restricted net assets	\$ 12,065,033

NOTE 6: RELATED PARTY TRANSACTIONS

Prince George's County (Parking Facilities Lease)

On August 29, 2013, the Authority executed an agreement effective July 1, 2012 to lease several parking facilities from the County. The original term of the agreement was from July 1, 2012 to June 30, 2014. The agreement automatically renews annually, and either party has the option to cancel the agreement.. 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, 2017, the Authority agreed to pay to the County \$850,000 for shared parking fine revenues.

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
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JUNE 30, 2017**

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, 2017.

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 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 was mutually agreed to extend 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, 2017.

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, 2017.

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

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PRINCE GEORGE'S COUNTY
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NOTE 6: RELATED PARTY TRANSACTIONS (Continued)

Due from Prince George's County consisted of the following at June 30, 2017:

	June 30, 2017
Annual facilities lease	\$ (150,000)
Annual fines distribution	(850,000)
Rent receivable, July 1, 2016 - June 30, 2017	660,000
HJC garage management fee due to the Authority	115,000
HJC annual fee due to the Authority	50,000
Suitland land acquisition funding	10,000,000
Payment to Department of Corrections 2017	16,043
Security (FARU) share of loss & reimbursements 2017	303,226
DPWT 2016 outstanding invoices	26,268
Fed Ex Field events reimb 2017	11,405
Total due from Prince George's County	\$ 10,181,942

**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, 2017 was \$50,197.

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. The Ground Lease was terminated in January 2017 in conjunction with the transfer of the Capital Centre 69 acre land asset and a 49,955 sq ft office building. The combined book value of the assets on the date of transfer was a combined \$7,386,273.

**REVENUE AUTHORITY OF
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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 2017 is \$163,410.

NOTE 9: COMMITMENTS

Operating Leases

The Authority leases office space, parking lots and miscellaneous office equipment under non-cancelable operating leases, which expire at various times through 2022.

Effective November 1, 2015, the Authority renegotiated its lease with Mercantile Place #1 Limited Partnership for office space in Largo, Maryland. The lease term is 7 years terminating on October 31, 2022. 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 one new lease agreement with Mercantile Place #1 Limited Partnership for office space known as suite 100-A in Largo, Maryland, for a period of 1 year commencing on November 1, 2015 and terminating on October 31, 2016. The Authority did not renew the lease for suite 100-A.

The Authority extended the lease agreement with the Maryland Transit Administration (MTA) for the New Carrollton East lot for a period of three months commencing on April 1, 2017 and terminating on June 30, 2017. The Authority renewed a lease with the MTA for the New Carrollton East lot for an a five year period commencing on July 1, 2017 and terminating on June 30, 2022 with the option to renew the lease for an additional term of five years commencing at the expiration of the initial term. For the year ended June 30, 2017, the Authority paid \$101,351.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 9: COMMITMENTS (Continued)

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

<u>Year ending June 30,</u>	
2018	\$ 381,802
2019	388,900
2020	399,141
2021	409,624
2022	420,371
2023	<u>103,920</u>
Future minimum lease payments	<u>\$ 2,103,758</u>

Rent expense for the year ended June 30, 2017 was \$300,642.

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, 2017, total contributions by the Authority to the eligible employees of the 401K retirement plan were \$156,507.

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, FUTURE MAINTENANCE-REPAIR AND REPLACEMENT COSTS and OPERATING RESERVES

In fiscal year 2007, the Revenue Authority established reserves for special projects and for future maintenance, repair and replacement costs. 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 repair and replacement costs of capital facilities and equipment.

**REVENUE AUTHORITY OF
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**NOTE 12: RESERVES FOR SPECIAL PROJECTS, FUTURE MAINTENANCE-REPAIR AND REPLACEMENT COSTS and OPERATING RESERVES
(Continued)**

In fiscal year 2015, the Revenue Authority established an operating reserve to fund short-term agency operating cash needs in case of limited cash balances. The operating reserve balance is calculated at 5% of the current fiscal year approved operating budget.

Designated Reserve Funds	June 30, 2017
Maintenance	\$ 1,362,140
Special Projects	3,040,773
Operating	945,365
Total designated reserve funds	\$ 5,348,278

NOTE 13: NOTES RECEIVABLES

On September 22, 2014, the Revenue Authority executed a Memorandum of Agreement with the Redevelopment Authority of Prince George's County. The Authority provided funding in the amount of \$3,158,656 to the Redevelopment Authority for the purchase of the Glenarden apartment complex. According to the terms of the agreement, The Redevelopment Authority will pay the daily accrual of simple interest at 3.5% of the outstanding principal balance. The interest payments are due on a semi-annual basis on January 1st and June 1st of each year. The repayment period of this agreement is for a maximum of 3 years from the execution date of a redevelopment agreement with a qualified Developer. On March 1, 2017, the Redevelopment Authority executed an agreement with a qualified Developer for the Glenarden project and as a result, the note will expire on February 28, 2020.

On December 19, 2016, the Revenue Authority executed a Balloon Payment Deed of Trust Note with Hunter Memorial A.M.E. Church, Inc. The Authority provided funds in the amount of \$4,800,000 to the Hunter Memorial Church as a deposit for the purchase of the located at 4701-4719 Silver Hill Road, Suitland, Maryland 20746.

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NOTE 13: NOTES RECEIVABLES (Continued)

According to the terms of the agreement, the debt will be forgiven upon the closing under the Contract of Sale between the Authority and Hunter Memorial Church for the property. In the event that the closing does not occur on or before January 5, 2018, the full debt will be due and payable on or before April 30, 2018.

NOTE 14: SPECIAL OBLIGATION BONDS – SERIES 2016

A. Special Obligation Bonds, Series 2016

On April 13, 2016, the Revenue Authority issued \$28,000,000 in Special Obligation Bonds (Suitland-Naylor Road Project), Series 2016 (the “Series 2016 Bonds”), for purposes of acquiring and assembling land improvements, paying entitlement fees, financing working capital, financing improvements related to the District, funding a debt service reserve fund, funding initial administrative expenses, and paying costs of issuing the Bonds. Pursuant to the Revenue Authority Act, the County Council adopted Bill No. CB-102-2015 on November 17, 2015 authorizing the pledge by the County of Tax Increment Revenues deposited into the Tax Increment Fund as security for the Bonds. The County has covenanted in the Contribution Agreement that it will comply in all material respects with the requirements of the laws of the State of Maryland relating to the timely levy and collection of the Tax Increment Revenues for the Series 2016 Bonds and other amounts payable under the Indenture.

The Series 2016 Bonds are special obligations of the Revenue Authority payable solely from the amounts received from the County and amounts held under the Indenture of Trust.

Interest on the Series 2016 Bonds is payable according to the terms specified by the Indenture semiannually on January 1 and July 1 of each year commencing on July 1, 2016. Interest on the Series 2016 Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months. The Term 2036 Bonds were issued at a premium of \$22,740. The Term 2046 Bonds were issued at a premium of \$153,874. The premiums are being amortized using the straight-line method over the life of each term of bonds. The Bonds were issued in three series as follows:

	<u>Principal Amount</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2030	\$ 1,700,000	4.375%	July 1, 2030
Term 2036	\$ 6,000,000	4.750%	July 1, 2036
Term 2046	\$ 20,300,000	5.000%	July 1, 2046

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PRINCE GEORGE'S COUNTY
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NOTE 14: SPECIAL OBLIGATION BONDS – SERIES 2016 (Continued)

The total interest payments on the bonds for the year ended June 30, 2017, was \$1,368,014.

Series 2016 Bonds payable consisted of the following at June 30, 2017:

	Balance July 1, 2016	Issuance	Decrease	Balance June 30, 2017
Series 2016, Term 2030	\$ 1,700,000	\$ -	\$ -	\$ 1,700,000
Series 2016, Term 2036	6,000,000	-	-	6,000,000
Plus: Unamortized premium	22,550	-	(1,223)	21,327
Total, Term 2036	<u>6,022,550</u>	<u>-</u>	<u>(1,223)</u>	<u>6,021,327</u>
Series 2016, Term 2046	20,300,000	-	-	20,300,000
Plus: Unamortized premium	152,592	-	(5,138)	147,454
Total, Term 2046	<u>20,452,592</u>	<u>-</u>	<u>(5,138)</u>	<u>20,447,454</u>
Total Bonds Payable	<u>\$ 28,175,142</u>	<u>\$ -</u>	<u>\$ (6,361)</u>	<u>\$ 28,168,781</u>

The Bonds are subject to optional redemption, extraordinary optional redemption, and mandatory redemption from excess tax increment revenues. Principal payments on the Bonds are due each July 1 beginning July 1, 2019 from excess tax increment revenues subject to the maximum cumulative redemption amounts.

B. Projected Bond Principal Liability and Accrued Interest Payable

The Bonds are subject to repayment to the bond holders at various maturity dates. The schedule below provides a projected annual liability of principal and accrued interest based on estimated Tax Increment Revenues available on July 1 of the following years:

	Principal	Interest	Total
2017	\$ -	\$ 1,374,375	\$ 1,374,375
2018	-	1,374,375	1,374,375
2019	100,000	1,374,375	1,474,375
2020	175,000	1,370,000	1,545,000
2021	225,000	1,362,344	1,587,344
2022-2026	2,190,000	6,624,806	8,814,806
2027-2032	8,600,000	6,674,801	15,274,801
2033-2037	14,355,000	2,896,500	17,251,500
2038-2042	<u>2,355,000</u>	<u>11,775</u>	<u>2,366,775</u>
Total	<u>\$ 28,000,000</u>	<u>\$23,063,351</u>	<u>\$ 51,063,351</u>

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NOTE 15: EQUITY INVESTMENT IN JOINT VENTURE – BRENTWOOD

On July 21, 2015, The Authority executed a Letter of Intent with Landex of Maryland, LLC or its Affiliate (the “Sponsor”) in which a joint venture that included the Redevelopment Authority of Prince George’s County and the Revenue Authority of Prince George’s County as “Investors” was formed. The Sponsor under approval from the Investors organized the Studio 3807, LLC (the “Company”) as a limited liability company under the Maryland Limited Liability Company Act on February 22, 2016.

The project known as “Studio at 3807” is located at 3807 Rhode Island Avenue, Brentwood, Maryland 20722. The project is a mixed-use project to be developed, constructed and leased and/or sold by the Company, consisting of market-rate rental apartment units, first floor retail space, artist studio space and appurtenant parking spaces.

The Authority committed \$3,708,625 in capital funding as an equity investment into the project for a 0.01% ownership interest and will receive a proportionate share of net available cash flow based on the operating agreement.

The Studio at 3807 project is scheduled for completion by the end of calendar year 2018.