

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED JUNE 30, 2016

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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 (the Authority), a component unit of Prince George's County, Maryland as of and for the year ended June 30, 2016, 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 Authority as of June 30, 2016, 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 17, 2016 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
November 17, 2016

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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, 2016. 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, 2016 was \$30,494,110.
- Assets exceeded liabilities by \$33,608,561 as of June 30, 2016. The largest component of the Authority's net position, about 42% or \$14,215,560, was invested in Capital Assets, such as Land; Property, Plant and Equipment; and Leasehold Improvements.
- Operating income for the year ended June 30, 2016 was \$2,173,124.

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, 2016**

Summary of Statement of Net Position

	<u>2016</u>	<u>2015</u>
Current assets	\$ 41,961,754	\$ 19,054,220
Noncurrent assets	<u>22,295,422</u>	<u>17,301,313</u>
Total assets	<u>64,257,176</u>	<u>36,355,533</u>
Current liabilities	2,329,252	2,105,148
Noncurrent liabilities	<u>28,319,363</u>	<u>137,683</u>
Total liabilities	<u>30,648,615</u>	<u>2,242,831</u>
Net investment in capital assets	14,215,560	13,873,584
Restricted (Note 5)	2,061,270	57,509
Unrestricted		
Designated (Note 12)	6,579,060	8,102,800
Undesignated	<u>10,752,671</u>	<u>12,078,809</u>
Total net position	<u>\$ 33,608,561</u>	<u>\$ 34,112,702</u>

The largest portion of the Authority's assets is cash and cash equivalents, which make up \$30,494,110 of total assets. The largest portion of the Authority's liabilities is the bonds payable, which represents \$28,000,000 of the Authority's liabilities. Net position decreased by \$504,141, consisting of an increase in operations of \$1,995,859, which was offset by a \$2,500,000 contribution to the County for fiscal year 2016.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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

	<u>2016</u>	<u>2015</u>
Total operating revenues	\$ 16,910,527	\$ 17,069,174
Total operating expenses	<u>(14,737,403)</u>	<u>(13,598,356)</u>
Operating income	2,173,124	3,470,817
Net non-operating revenues (loss)	<u>(177,265)</u>	<u>79,589</u>
Change in net position	<u>1,995,859</u>	<u>3,550,407</u>
Contribution to the County	<u>(2,500,000)</u>	<u>(2,500,000)</u>
Net position, beginning of year	<u>34,112,702</u>	<u>33,062,295</u>
Net position, end of year	<u>\$ 33,608,561</u>	<u>\$ 34,112,702</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 \$14,930,673 in fiscal year 2016. Rent income from Prince George's County was \$660,000 in fiscal year 2016.

The Capital Centre project revenue from leased property was \$131,960 in fiscal year 2016.

Management fee income related to the Red Light Camera Enforcement Program and False Alarm Reduction Unit (FARU) were, \$605,001 and \$49,847, respectively in fiscal year 2016. The management fee earned was 12.5% of gross revenues for both programs.

Management fee income related to the Automated Speed Enforcement Program was \$91,517 in fiscal year 2016. The management fee earned was 2% of net revenues for the program.

Other income was \$441,529 in fiscal year 2016. That amount included rental income of \$79,964 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 2016 were \$11,566,636.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

General and administrative expenses were \$2,277,509, which primarily consists of the salaries of administrative personnel and related overhead and facilities expenses. As a percentage of total revenues, general and administration expenses were 13.47% for fiscal year 2016.

Depreciation and amortization expenses were \$743,258 in fiscal year 2016.

Rental expenses to Prince George's County for fiscal year 2016 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 \$177,265 in fiscal year 2016.

The Authority contributed an additional \$2,500,000 to the County from its unrestricted net position for fiscal year 2016. 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, 2016 and 2015.

	Capital Assets as of June 30	
	<u>(net of accumulated depreciation/amortization)</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 12,705,652	\$ 7,225,144
Office building	3,929,044	4,003,062
Parking structures	1,633,831	2,033,010
Parking equipment	43,272	65,967
Office equipment	65,030	72,807
Meters	54,316	16,628
Vehicles	313,729	329,883
Leasehold improvements	391,892	396,157
Total	<u>\$ 19,136,766</u>	<u>\$ 14,142,657</u>

Total additions for the year were \$5,936,202. Total depreciation and amortization expenses for the year were \$743,258.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Debt

Debt includes obligations for equipment and vehicles under capital leases in the amount of \$256,763.

The Authority issued \$28,000,000 in Maryland Special Obligation Bonds titled as Suitland-Naylor Road Project – Series 2016 bonds. The County has approved the pledge of Tax Increment Revenues to satisfy the principal and interest owed on the bonds. \$5,665,508 of the bond proceeds was utilized in 2016 to acquire the Suitland Shopping Center for a future 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, 2016**

Assets

Current assets

Cash and cash equivalents (Note 2)	\$ 30,494,110
Parking and other receivables	11,300,884
Other current assets	106,760
Receivable from bond funds	<u>60,000</u>

Total current assets 41,961,754

Non-Current assets

Note Receivable (Note 13)	3,158,656
Land, not being depreciated (Note 3)	12,705,652
Capital assets being depreciated, net (Note 3)	<u>6,431,114</u>

Total noncurrent assets 22,295,422

Total assets 64,257,176

Liabilities and Net Position

Current liabilities

Accounts payable and accrued expenses	1,026,657
Deferred revenue	149,180
Due to Prince George's County (Note 6)	201,612
Due to WMATA (Note 7)	39,373
Due to others	488,542
Capital lease obligation, current portion (Note 4)	126,107
Bond Interest Payable	<u>297,781</u>

Total current liabilities 2,329,252

Noncurrent liabilities

Deposits held	13,565
Bonds Payable (Note 14)	28,000,000
Bonds Premium Payable (Note 14)	175,142
Capital lease obligation, net of current portion (Note 4)	<u>130,656</u>

Total noncurrent liabilities 28,319,363

Total liabilities 30,648,615

Net Position

Net investment in capital assets	14,215,560
Restricted (Note 5)	2,061,270
Unrestricted	
Designated (Note 12)	6,579,060
Undesignated	<u>10,752,671</u>

Total Net Position \$ 33,608,561

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, 2016**

Operating Revenues	
Parking operations	\$ 14,930,673
Rent income from Prince George's County (Note 6)	660,000
Capital Centre project	131,960
Management fee - red light	605,001
Management fee - false alarm	49,847
Management fee - automated speed enforcement	91,517
Other	<u>441,529</u>
 Total operating revenues	 <u>16,910,527</u>
Operating Expenses	
Parking operations	11,566,636
General and administrative	2,277,509
Depreciation and amortization (Note 3)	743,258
Rent payment to Prince George's County (Note 6)	<u>150,000</u>
 Total operating expenses	 <u>14,737,403</u>
 Operating income	 <u>2,173,124</u>
Non-Operating Revenues (Expenses)	
Interest income	131,974
Interest expense	<u>(309,239)</u>
 Net non-operating expenses	 <u>(177,265)</u>
 Change in net position	 <u>1,995,859</u>
 Contribution to the County (Note 6)	 <u>(2,500,000)</u>
 Net position, beginning of year,	 <u>34,112,702</u>
 Net Position, End of Year	 <u><u>\$ 33,608,561</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, 2016**

Cash flows from operating activities	
Cash received from operations	\$ 9,081,373
Cash paid to suppliers	(7,439,603)
Cash paid to employees	(3,123,564)
Cash paid to board members	<u>(44,060)</u>
Net cash used by operating activities	<u>(1,525,854)</u>
Cash flows from capital and related financing activities	
Land Purchase	(5,480,508)
Bond Proceeds	28,175,142
Bond Interest Payable	297,781
Purchases of capital assets	(256,859)
Principal paid on capital leases and notes payable, net	(12,310)
Interest paid on debt	<u>(309,239)</u>
Net cash provided by capital and related financing activities	<u>22,414,007</u>
Cash flows from investing activities	
Investment earnings	<u>131,974</u>
Net increase in cash and cash equivalents	21,020,127
Cash and cash equivalents, beginning of year	<u>9,473,983</u>
Cash and cash equivalents, end of year	<u><u>\$ 30,494,110</u></u>
Non-cash capital and related financing activities:	
Acquisition of capital lease	<u><u>\$ 133,040</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, 2016**

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 2,173,124
Adjustments to reconcile operating income to net cash used in operating activities	
Contribution to the County	(2,500,000)
Depreciation and amortization	743,258
Bad debt expense	2,811,224
Effect of changes in operating assets and liabilities:	
Accounts receivable	(4,683,016)
Other current assets	(15,616)
Accounts payable and accrued expenses	(165,958)
Deferred revenue	338
Due to Prince George's County	201,612
Due to WMATA	(62,027)
Due to others	(42,358)
Deposits Held	13,565

Net cash used by operating activities \$ (1,525,854)

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

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016**

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 \$35,143,869 at June 30, 2016. The Authority will write-off citations when they are deemed uncollectable and have aged out for 10 years. The Authority wrote off \$1,761,746 of citations in fiscal year 2016 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, 2016. 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, 2016**

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, 2016.

Cash deposits	\$ 1,037,665
Repurchase agreements	702,969
HarborBank Certificate of Deposit	103,388
BNY Mellon - Bond Trustee *	23,510,699
Maryland Local Government Investment Pool	<u>5,139,389</u>
Total cash and cash equivalents	<u><u>\$ 30,494,110</u></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, 2016**

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, 2016.

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, 2016, there were no deposits or investments exposed to custodial credit risk.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3: CAPITAL ASSETS

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 7,225,144	\$ 5,665,508	\$ 185,000	\$ 12,705,652
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	-	-	549,904
Office equipment	487,981	39,497	569	526,909
Meters	197,773	37,688	-	235,461
Vehicles	679,786	154,040	76,977	756,849
Leasehold improvements	1,960,839	39,469	-	2,000,308
Total capital assets being depreciated:	<u>20,739,281</u>	<u>270,694</u>	<u>77,546</u>	<u>20,932,429</u>
Less accumulated depreciation/amortization for:				
Office building	1,178,103	74,017	-	1,252,121
Parking structures	9,648,823	399,178	-	10,048,002
Parking equipment	483,937	22,694	-	506,632
Office equipment	415,174	46,704	-	461,879
Meters	181,145	-	-	181,145
Vehicles	349,904	156,930	63,714	443,120
Leasehold improvements	1,564,681	43,735	-	1,608,416
Total accumulated depreciation and amortization	<u>13,821,767</u>	<u>743,258</u>	<u>63,714</u>	<u>14,501,315</u>
Net capital assets being depreciated:	<u>6,917,514</u>	<u>(472,564)</u>	<u>13,832</u>	<u>6,431,114</u>
Net capital assets	<u><u>\$ 14,142,658</u></u>	<u><u>\$ 5,192,944</u></u>	<u><u>\$ 198,832</u></u>	<u><u>\$ 19,136,766</u></u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4: CAPITAL LEASES

The Authority leases furniture, equipment and twenty-two vehicles under eight separate capital leases expiring by the year 2020. 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 2016.

Capital lease activity for the years ended June 30, 2016 is as follows:

<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June</u> <u>30, 2016</u>	<u>Due Within</u> <u>One Year</u>
\$ 269,073	\$ 133,040	\$ (145,350)	\$ 256,763	\$ 126,107

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

Year ending June 30,	
2017	\$ 136,601
2018	100,186
2019	<u>35,964</u>
Total minimum lease payments	272,751
Less: amount representing interest	<u>(15,988)</u>
Present value of future minimum lease payments	<u>\$ 256,763</u>
Due within one year	\$ 126,107
Long-term portion	<u>130,656</u>
Future minimum lease payments	<u>\$ 256,763</u>

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5: RESTRICTIONS OF NET ASSETS

	2016
Net assets are restricted for the following purposes:	
Bond Reserve Fund for Series 2016 bonds	\$ 2,000,000
Closed Circuit Television Repair & Replacement Reserves	61,270
Total restricted net assets	\$ 2,061,270

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 term of the agreement was from July 1, 2012 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, 2016, the Authority agreed to pay to the County \$850,000 for shared parking fine revenues. Additionally, the Authority agreed to pay the County \$2,500,000, which was transferred from unrestricted net position.

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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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, 2016.

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, 2016.

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, 2016.

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

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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NOTE 6: RELATED PARTY TRANSACTIONS (Continued)

Due to Prince George's County consisted of the following at June 30, 2016:

	June 30, 2016
Annual facilities lease	\$ 150,000
Annual fines distribution	850,000
Annual County contribution	2,500,000
Rent receivable, July 1, 2015 - June 30, 2016	(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	(16,767)
Security (FARU) share of loss 2016	(444,267)
Fed Ex Field reimb 2016	(12,355)
Total due to Prince George's County	2,201,612
Total paid to Prince George's County	(2,000,000)
Net due to (from) County FY 2016	\$ 201,612

**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, 2016 was \$39,373.

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
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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 2016 is \$131,960.

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 has the option to renew the lease for 3 additional terms of one year each commencing at the expiration of the initial term.

The Authority entered into a lease agreement with the Maryland Transit Administration (MTA) for the New Carrollton East lot for a period of one year commencing on March 1, 2015 and terminating on February 29, 2016. The Authority executed the option to renew the lease for an additional term of one year commencing at the expiration of the initial term. For the year ended June 30, 2016, the Authority paid \$63,830.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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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>	
2017	\$ 359,626
2018	287,431
2019	295,350
2020	303,487
2021	311,848
2022	320,439
2023	<u>107,776</u>
Future minimum lease payments	<u>\$ 1,985,957</u>

Rent expense for the year ended June 30, 2016 was \$287,401.

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, 2016, total contributions by the Authority to the eligible employees of the 401K retirement plan were \$157,497.

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

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PRINCE GEORGE'S COUNTY
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NOTE 12: RESERVES FOR SPECIAL PROJECTS, FUTURE MAINTENANCE-REPAIR AND REPLACEMENT COSTS and OPERATING RESERVES (Continued)

maintenance, repair and replacement costs is for non-recurring maintenance, repair and replacement costs of capital facilities and equipment.

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.

<u>Designated Reserve Funds</u>	<u>June 30, 2016</u>
Maintenance	\$ 953,126
Special Projects	4,749,398
Operating	876,536
Total designated reserve funds	\$ 6,579,060

NOTE 13: NOTES RECEIVABLE – GLENARDEN

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 principal amount funded. The interest payments are due on a semi-annual basis on January 1st and June 1st of each year. The term of the agreement is for a maximum of a 3 year period beginning September 23, 2014 or if the Redevelopment Authority sells the property to a successful developer before the expiration of the three year period.

**REVENUE AUTHORITY OF
PRINCE GEORGE’S COUNTY
NOTES TO FINANCIAL STATEMENTS
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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

There were no interest payments for the year ended June 30, 2016.

**REVENUE AUTHORITY OF
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 SPECIAL OBLIGATION BONDS – SERIES 2016 (Continued)

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

	Balance July 1, 2015	Issuance	Decrease	Balance June 30, 2016
Series 2016, Term 2030	\$ -	\$ 1,700,000	\$ -	\$ 1,700,000
Series 2016, Term 2036	-	6,000,000	-	6,000,000
Plus: Unamortized premium	-	22,740	(190)	22,550
Total, Term 2036	-	6,022,740	(190)	6,022,550
Series 2016, Term 2046	-	20,300,000	-	20,300,000
Plus: Unamortized premium	-	153,874	(1,282)	152,592
Total, Term 2046	-	20,453,874	(1,282)	20,452,592
Total Bonds Payable	\$ -	\$28,176,614	\$ (1,472)	\$28,175,142

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	2,355,000	11,775	2,366,775
Total	<u>\$ 28,000,000</u>	<u>\$23,063,351</u>	<u>\$ 51,063,351</u>