

REVENUE AUTHORITY OF PRINCE GEORGE'S COUNTY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2018

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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, 2018, 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, 2018, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 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 28, 2018

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018. Please read this in conjunction with the Authority's basic financial statements, which begin on page 8.

Financial Highlights

- Cash, cash equivalents and investments for the year ended June 30, 2018 was \$17,754,312.
- Assets exceeded liabilities by \$42,575,714 as of June 30, 2018. The significant component of the Authority's net position, about 20.5% or \$8,729,128, was recorded as Net Investment in Capital Assets.
- Operating income for the year ended June 30, 2018 was \$3,687,795.

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, 2018**

Summary of Statement of Net Position

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|----------------------|----------------------|
| Current assets | \$ 39,312,540 | \$ 41,714,363 |
| Noncurrent assets | 71,002,919 | 28,500,380 |
| Total assets | <u>110,315,459</u> | <u>70,214,743</u> |
| Current liabilities | 7,591,377 | 2,756,976 |
| Noncurrent liabilities | 60,148,368 | 28,400,426 |
| Total liabilities | <u>67,739,745</u> | <u>31,157,402</u> |
| Net investment in capital assets | 8,729,128 | 2,980,091 |
| Restricted | 6,133,290 | 12,065,033 |
| Unrestricted | | |
| Equity Investment in Joint Venture | 5,794,726 | 3,708,625 |
| Designated | 5,568,296 | 5,348,278 |
| Undesignated | 16,350,274 | 14,955,314 |
| Total net position | <u>\$ 42,575,714</u> | <u>\$ 39,057,341</u> |

The largest portion of the Authority's assets is lease receivables, which make up \$35,625,860 of total assets. The largest portion of the Authority's liabilities is the bonds payable, which represents \$63,788,375 of the total liabilities. Net position increased by \$3,518,373 for fiscal year 2018.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|----------------------|----------------------|
| Total operating revenues | \$ 19,397,503 | \$ 19,310,030 |
| Total operating expenses | <u>(15,709,708)</u> | <u>(15,282,398)</u> |
| Operating income | 3,687,795 | 4,027,632 |
| Net non-operating loss | <u>(169,422)</u> | <u>8,807,421</u> |
| Change in net position | <u>3,518,373</u> | <u>12,835,053</u> |
| Land and building transfer | <u>-</u> | <u>(7,386,273)</u> |
| Net position, beginning of year | <u>39,057,341</u> | <u>33,608,561</u> |
| Net position, end of year | <u>\$ 42,575,714</u> | <u>\$ 39,057,341</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 \$16,329,036 in fiscal year 2018.

The Suitland project revenue from leased property was \$354,693 in fiscal year 2018.

Management fee income related to the Red Light Camera Enforcement Program and False Alarm Reduction Unit (FARU) were \$812,500 and \$99,130, respectively in fiscal year 2018. The management fee earned was 12.5% of gross revenues for both programs.

Management fee income related to the Automated Speed Enforcement Program was \$56,350 in fiscal year 2018. The management fee earned was 2% of net revenues for the program.

Other income was \$1,085,794 in fiscal year 2018.

TIF Revenue income from Prince George's County was \$1,011,443 in fiscal year 2018.

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 2018 were \$10,850,476.

General and administrative expenses were \$3,265,865, 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 15.99% for fiscal year 2018.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Depreciation and amortization expenses were \$756,801 in fiscal year 2018.

Rent payment to Prince George's County for fiscal year 2018 was \$150,060.

Real estate development cost totaled \$249,835 for fiscal year 2018.

Non-operating revenues (expenses) consist of TIF revenue, interest income on short-term investments and interest charges on long-term debt. Net non-operating expenses were \$169,422, in fiscal year 2018.

Capital Assets

The Authority's capital asset, net of accumulated depreciation and amortization, are presented in the following table as of June 30, 2018 and 2017.

| | Capital Assets as of June 30 | |
|--------------------------|---|----------------------|
| | <u>(net of accumulated depreciation/amortization)</u> | |
| | <u>2018</u> | <u>2017</u> |
| Land | \$ 30,460,358 | \$ 19,448,259 |
| Construction in Progress | 745,821 | - |
| Parking structures | 835,469 | 1,234,646 |
| Parking equipment | 16,150 | 17,770 |
| Office equipment | 90,935 | 67,710 |
| Meters | 130,727 | 77,210 |
| Vehicles | 594,822 | 422,330 |
| Leasehold improvements | 633,051 | 365,174 |
| Total | <u>\$ 33,507,333</u> | <u>\$ 21,633,099</u> |

Total additions for the year were \$12,641,813. Total depreciation and amortization expenses for the year were \$756,801.

Debt

Debt includes obligations for equipment and vehicles under capital leases in the amount of \$490,174.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018**

Assets

| | |
|---|--------------------|
| Current assets | |
| Cash, cash equivalents and investments (Note 2) | \$ 17,754,312 |
| Parking and other receivables, net | 15,995,234 |
| Note receivable (Note 3) | 1,484,924 |
| Lease receivable (Note 4) | 3,925,000 |
| Other current assets | <u>153,070</u> |
| Total current assets | <u>39,312,540</u> |
| Non-Current assets | |
| Lease Receivable (Note 4) | 31,700,860 |
| Equity Investment in Joint Ventures (Note 5) | 5,794,726 |
| Capital assets not being depreciated (Note 6) | 31,206,179 |
| Capital assets being depreciated, net (Note 6) | <u>2,301,154</u> |
| Total noncurrent assets | <u>71,002,919</u> |
| Total assets | <u>110,315,459</u> |

Liabilities and Net Position

| | |
|---|-----------------------------|
| Current liabilities | |
| Accounts payable and accrued expenses | 2,212,487 |
| Due to WMATA (Note 8) | 42,583 |
| Due to Prince George's County | 327,925 |
| Due to others | 76,687 |
| Unearned grant revenue (Note 9) | 681,655 |
| Deposits held | 12,999 |
| Capital lease obligation, current portion (Note 7) | 205,181 |
| Bond interest payable | 106,860 |
| Bond Payable (Note 10) | <u>3,925,000</u> |
| Total current liabilities | <u>7,591,377</u> |
| Noncurrent liabilities | |
| Bonds Payable (Note 10) | 59,863,375 |
| Capital lease obligation, net of current portion (Note 7) | <u>284,993</u> |
| Total noncurrent liabilities | <u>60,148,368</u> |
| Total liabilities | <u>67,739,745</u> |
| Net Position | |
| Net investment in capital assets | 8,729,128 |
| Restricted (Note 11) | 6,133,290 |
| Unrestricted | |
| Equity Investment in Joint Venture (Note 5) | 5,794,726 |
| Designated (Note 12) | 5,568,296 |
| Undesignated | <u>16,350,274</u> |
| Total Net Position | <u><u>\$ 42,575,714</u></u> |

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, 2018**

Operating Revenues

| | |
|--|-----------------------|
| Parking operations | \$ 16,329,036 |
| Rent income from Prince George's County | 660,000 |
| Rental Income | 354,693 |
| Management fee - red light | 812,500 |
| Management fee - false alarm | 99,130 |
| Management fee - automated speed enforcement | 56,350 |
| Other | <u>1,085,794</u> |
| Total operating revenues | <u>19,397,503</u> |

Operating Expenses

| | |
|--|-----------------------|
| Parking operations | 10,850,476 |
| General and administrative | 3,265,865 |
| Depreciation and amortization | 756,801 |
| Rent payment to Prince George's County | 150,060 |
| Rental Expense | 171,475 |
| Property Tax | 107,623 |
| Real Estate Development Cost | 249,835 |
| Other | <u>157,573</u> |
| Total operating expenses | <u>15,709,708</u> |

| | |
|------------------|------------------|
| Operating income | <u>3,687,795</u> |
|------------------|------------------|

Non-Operating Revenues (Expenses)

| | |
|----------------------------|--------------------|
| TIF Revenue | 1,011,443 |
| Interest income | 298,848 |
| Interest expense | (1,479,713) |
| Contribution from IDA | 5,060,682 |
| Contribution to the County | <u>(5,060,682)</u> |

| | |
|----------------------------|------------------|
| Net non-operating expenses | <u>(169,422)</u> |
|----------------------------|------------------|

| | |
|------------------------|-----------|
| Change in net position | 3,518,373 |
|------------------------|-----------|

| | |
|---------------------------------|-------------------|
| Net position, beginning of year | <u>39,057,341</u> |
|---------------------------------|-------------------|

| | |
|----------------------------------|------------------------------------|
| Net Position, End of Year | <u><u>\$ 42,575,714</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, 2018**

Cash flows from operating activities

| | |
|-------------------------------|-----------------|
| Cash received from operations | \$ 17,296,897 |
| Cash paid to suppliers | (9,526,909) |
| Cash paid to employees | (4,476,588) |
| Cash paid to board members | <u>(51,000)</u> |

Net cash provided by operating activities 3,242,400

Cash flows from capital and related financing activities

| | |
|--|--------------------|
| Purchases of capital assets | (1,692,871) |
| Land Purchase | (11,012,099) |
| Proceeds from issuance of debt | 35,639,035 |
| Purchase of property held for resale | (35,639,035) |
| County Contributions | 11,011,443 |
| Principal paid on capital leases and notes payable net | 193,409 |
| Interest paid on debt | <u>(2,046,866)</u> |

Net cash used by capital and related financing activities (3,546,984)

Cash flows from investing activities

| | |
|-------------------------------|----------------|
| Purchase of equity investment | (2,086,101) |
| Loan payment | 6,473,732 |
| Investment earnings | <u>298,849</u> |

Net cash provided by investing activities 4,686,480

Net increase in cash and cash equivalents 4,381,896

Cash and cash equivalents, beginning of year 13,372,416

Cash and cash equivalents, end of year \$ 17,754,312

Non-cash capital and related financing activities:

| | |
|------------------------------|--------------------------|
| Acquisition of capital lease | <u><u>\$ 323,661</u></u> |
|------------------------------|--------------------------|

During the year ended June 30, 2018, the Authority issued the 2018A and 2018B series bond obligations and received net proceeds of \$35,639,035. These proceeds were utilized to acquire an ownership interest in property held by the Industrial Development Authority of Prince George's County which had a carrying value of \$40,699,717. The property was transferred to the County for a lease receivable of \$35,639,035 resulting in a contribution for the difference of \$5,060,682.

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, 2018**

Reconciliation of operating income to net cash provided by operating activities

| | | |
|--|-----------|------------------|
| Operating income | \$ | 3,687,795 |
| Adjustments to reconcile operating income to net cash used in operating activities | | |
| Depreciation and amortization | | 756,801 |
| Bad debt expense | | 2,660,854 |
| Effect of changes in operating assets and liabilities: | | |
| Accounts receivable | | (5,449,632) |
| Other current assets | | (8,184) |
| Accounts payable and accrued expenses | | 926,012 |
| Unearned revenue | | 681,655 |
| Due to Prince George's County | | 509,866 |
| Due to WMATA | | (7,614) |
| Due to others | | (496,708) |
| Deposits Held | | (18,445) |
| | | (18,445) |
| Net cash provided by operating activities | \$ | 3,242,400 |

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

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT 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, goods, 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, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Authority categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Certificates of deposit are carried at amortized cost.

Allowance for Uncollectible Receivables

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 \$41,478,574 at June 30, 2018. The Authority will write-off citations when they are deemed uncollectible and have aged out for 10 years. The Authority wrote off \$3,031,445 of citations in fiscal year 2018 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 30 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, 2018. 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.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

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.

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.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments are composed of the following at June 30, 2018.

| | |
|--|-----------------------------|
| Cash deposits | \$ 1,524,036 |
| Petty cash | 7,137 |
| Repurchase agreements | 1,450,286 |
| Old Line Bank Certificate of Deposit | 977,925 |
| Harbor Bank Certificate of Deposit | 104,584 |
| Zions Bank - Bond Trustee* | 10,578 |
| BNY Mellon - Bond Trustee* | 5,874,484 |
| Maryland Local Government Investment Pool | <u>7,805,282</u> |
| Total cash, cash equivalents, and investments | <u>\$ 17,754,312</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.

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.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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.

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, 2018, there were no deposits or investments exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of June 30, 2018:

| Investment type | Less than 6 Months | 6 to 12 Months | 1 to 3 Years | Total |
|------------------------|-----------------------|-------------------|-----------------|--------------|
| Certificate of Deposit | \$ - | \$ 1,082,509 | \$ - | \$ 1,082,509 |

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3: NOTE RECEIVABLE

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 the 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 per the terms of the agreement, the note will expire 3 years from that date or on February 28, 2020.

On October 25, 2017, the Revenue Authority received a principal payment from the Redevelopment Authority in the amount of \$1,673,732. The remaining outstanding note balance is \$1,484,924 and will accrue interest until the note is paid in full or the note expires.

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 property located at 4701-4707 Silver Hill Road, Suitland, Maryland 20746. 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. The property closed on January 5, 2018 and the earnest deposit was applied towards the purchase of the property.

NOTE 4: LEASE RECEIVABLES – UPPER MARLBORO COURTHOUSE AND DUVALL WING

On May 23, 2018, the Revenue Authority executed two (2) Capital Lease agreements with Prince George's County Government. The leases are referred to as the 2018A and 2018B Financing Leases.

The 2018A financing lease is associated with the County leasing the improvements identified as 350,000 square feet of gross floor space, a four-level parking garage, a cafeteria, site improvements, equipment and furnishings. In addition, an approximately 90,000 square foot, four story expansion interconnected to the existing Marbury Wing at its west end. The 2018B lease is associated with the County leasing the rehabilitated and repaired DuVall Wing of the Prince George's County Courthouse.

**REVENUE AUTHORITY OF
PRINCE GEORGE’S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 4: LEASE RECEIVABLES – UPPER MARLBORO COURTHOUSE AND
DUVALL WING (CONTINUED)**

The County is responsible for the principal, interest and premium of the bond debt issued for the rehabilitation and repair. The lease period is for a maximum of 17 years or until the bonds are no longer outstanding. Future minimum lease payments to be received as of June 30, 2018, were as follows:

| Year ending June 30, | <u>Amounts</u> |
|------------------------------------|-----------------------------|
| 2019 | \$ 5,365,418 |
| 2020 | 3,601,923 |
| 2021 | 3,594,103 |
| 2022 | 3,596,905 |
| 2023 | 3,604,591 |
| 2024-2028 | 17,987,290 |
| 2029-2030 | <u>7,165,866</u> |
| Total minimum lease payments | 44,916,096 |
| Less: amount representing interest | <u>9,290,236</u> |
| Net minimum lease payments | <u><u>\$ 35,625,860</u></u> |

NOTE 5: EQUITY INVESTMENTS 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 Studio at 3807 project is scheduled for completion by the end of calendar year 2018.

**REVENUE AUTHORITY OF
PRINCE GEORGE’S COUNTY
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**NOTE 5: EQUITY INVESTMENTS IN JOINT VENTURE – BRENTWOOD
(Continued)**

The Authority committed \$3,708,625 in capital funding as an equity investment into the project for 0.01% of ownership interest. The Authority will be entitled a cash distribution equal to 25.00% from all net available cash flows at least one time per year. The net cash distribution available will be determined after a distribution to the Managing Member for the repayment of Predevelopment Loans, then distribution to the Managing Member for the return of all EB5 Contributions, then the distribution to the Landex Member for any outstanding and unpaid Priority Returns.

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 4100 RI, LLC (the “Company”) as a limited liability company under the Maryland Limited Liability Company Act on December 17, 2014.

The project known as “Artisan 4100” is located at 4100 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 Artisan 4100 project is scheduled for completion by the end of calendar year 2020.

The Authority committed \$2,086,101 in capital funding as an equity investment into the project for 0.01% of ownership interest. The Authority will be entitled a cash distribution equal to 23.65% from all net available cash flows at least one time per year. The net cash distribution available will be determined after a distribution to the Managing Member for the repayment of Predevelopment Loans, then distribution to the Managing Member for the return of all EB5 Contributions, then the distribution to the Landex Member for any outstanding and unpaid Priority Returns.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6: CAPITAL ASSETS

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|----------------------------------|----------------------|------------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 19,448,259 | \$ 11,012,099 | \$ - | \$ 30,460,358 |
| Construction in Progress | - | 745,821 | - | 745,821 |
| Total capital assets not being depreciated: | 19,448,259 | 11,757,920 | - | 31,206,179 |
| Capital assets being depreciated/amortized: | | | | |
| Parking structures | 11,681,833 | - | - | 11,681,833 |
| Parking equipment | 546,207 | 20,426 | - | 566,633 |
| Office equipment | 577,510 | 60,972 | - | 638,482 |
| Meters | 273,313 | 85,190 | - | 358,503 |
| Vehicles | 897,098 | 395,162 | 247,650 | 1,044,610 |
| Leasehold improvements | 2,019,244 | 322,143 | - | 2,341,387 |
| Total capital assets being depreciated: | 15,995,205 | 883,893 | 247,650 | 16,631,448 |
| Less accumulated depreciation/amortization for: | | | | |
| Parking structures | 10,447,186 | 399,178 | - | 10,846,364 |
| Parking equipment | 528,437 | 22,046 | - | 550,483 |
| Office equipment | 509,800 | 37,747 | - | 547,547 |
| Meters | 196,103 | 31,673 | - | 227,776 |
| Vehicles | 474,768 | 211,892 | 236,872 | 449,788 |
| Leasehold improvements | 1,654,071 | 54,265 | - | 1,708,336 |
| Total accumulated depreciation and amortization | 13,810,365 | 756,801 | 236,872 | 14,330,294 |
| Net capital assets being depreciated: | 2,184,840 | 127,092 | 10,778 | 2,301,154 |
| Net capital assets | \$ 21,633,099 | \$ 11,885,012 | \$ 10,778 | \$ 33,507,333 |

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7: CAPITAL LEASES

The Authority leases furniture, equipment and thirty-two vehicles under eleven 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 2018.

Capital lease activity for the year ended June 30, 2018, is as follows:

| <u>Balance July 1, 2017</u> | <u>Additions</u> | <u>Decreases</u> | <u>Balance June 30, 2018</u> | <u>Due Within One Year</u> |
|---------------------------------|------------------|------------------|----------------------------------|--------------------------------|
| \$ 359,922 | \$ 323,661 | \$ (193,409) | \$ 490,174 | \$ 205,181 |

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

| | |
|---|--------------------------|
| Year ending June 30, | |
| 2019 | \$ 225,171 |
| 2020 | 176,801 |
| 2021 | 110,573 |
| 2022 | 11,182 |
| Total minimum lease payments | <u>523,727</u> |
| Less: amount representing interest | <u>(33,553)</u> |
| Present value of future minimum lease payments | <u><u>\$ 490,174</u></u> |
| | |
| Due within one year | \$ 205,181 |
| Long-term portion | <u>284,993</u> |
| Future minimum lease payments | <u><u>\$ 490,174</u></u> |

Assets under capital leases recorded in the statement of net position as of June 30, 2018, were as follows:

| | |
|--|--------------------------|
| Vehicles | \$ 773,701 |
| Less: accumulated depreciation | <u>(265,599)</u> |
| Assets acquired under capital leases, net | <u><u>\$ 508,102</u></u> |

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

**NOTE 8: 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, 2018 was \$42,583.

**NOTE 9: UNEARNED GRANT REVENUE – STRATEGIC DEMOLITION AND
SMART GROWTH INVESTMENT FUND (SDSGIF)**

In December 2014, the Authority was awarded from the Maryland Department of Housing and Community Development (DHCD) the FY 2015 Strategic Demolition and Smart Growth Investment Fund (SDSGIF) grant. The grant award amount of Four Hundred Thousand Dollars (\$400,000) was made available to assist with the design, site preparation and the construction of the Hamilton Street Structured Parking Facility project. The Authority received the funding of the award in January 2018.

On December 28, 2017, the Authority and the City of Hyattsville, an incorporated municipality of the State of Maryland issued a Memorandum of Understanding (MOU). The City of Hyattsville was awarded a grant from the FY 2015 Strategic Demolition and Smart Growth Investment Fund (SDSGIF) grant from the Maryland Department of Housing and Community Development (DHCD). The City desired to support the Authority's conceptual drawings for the Hamilton Street Parking Facility project and so issued the MOU in which they contributed Two Hundred and Eighty-One Thousand, Six Hundred and Fifty-Five Dollars (\$281,655) for the purpose of subsidizing the cost of engineering and design services provided pursuant to a Development Agreement. The Authority received the funding in January 2018.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 BONDS PAYABLE

Changes in bonds payable for the fiscal year ended June 30, 2018 was as follows:

| | Balance | | | Balance June 30, 2018 | Amounts Due Within One Year |
|--------------------------------------|----------------------|----------------------|--------------------|--------------------------|-----------------------------------|
| | July 1, 2017 | Additions | Deductions | | |
| Special Obligation Bonds | | | | | |
| Series 2016, Term 2030 | \$ 1,700,000 | \$ - | \$ - | \$ 1,700,000 | \$ - |
| Series 2016, Term 2036 | 6,000,000 | - | - | 6,000,000 | - |
| Premium | 21,327 | - | (1,130) | 20,197 | - |
| | <u>6,021,327</u> | <u>-</u> | <u>(1,130)</u> | <u>6,020,197</u> | <u>-</u> |
| Series 2016, Term 2046 | 20,300,000 | - | - | 20,300,000 | - |
| Premium | 147,454 | - | (5,136) | 142,318 | - |
| | <u>20,447,454</u> | <u>-</u> | <u>(5,136)</u> | <u>20,442,318</u> | <u>-</u> |
| Lease Revenue Refunding Bonds | | | | | |
| Series 2018A, Term 2030 | - | 15,255,000 | - | 15,255,000 | 3,575,000 |
| Premium | - | 1,884,035 | (13,175) | 1,870,860 | - |
| | <u>-</u> | <u>17,139,035</u> | <u>(13,175)</u> | <u>17,125,860</u> | <u>3,575,000</u> |
| Series 2018B, Term 2030 | - | 18,500,000 | - | 18,500,000 | 350,000 |
| Total Bonds Payable | <u>\$ 28,168,781</u> | <u>\$ 35,639,035</u> | <u>\$ (19,441)</u> | <u>\$ 63,788,375</u> | <u>\$ 3,925,000</u> |

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.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10: BONDS PAYABLE (Continued)

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 |

The total interest payments on the bonds for the year ended June 30, 2018, was \$1,374,375.

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.

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:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|----------------------|----------------------|----------------------|
| 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 | 255,000 | 1,352,500 | 1,607,500 |
| 2023 | 250,000 | 1,341,344 | 1,591,344 |
| 2024-2028 | 3,695,000 | 6,393,925 | 10,088,925 |
| 2029-2033 | 8,860,000 | 5,047,338 | 13,907,338 |
| 2034-2038 | 14,440,000 | 2,178,750 | 16,618,750 |
| Total | <u>\$ 28,000,000</u> | <u>\$ 20,420,576</u> | <u>\$ 48,420,576</u> |

**REVENUE AUTHORITY OF
PRINCE GEORGE’S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10: BONDS PAYABLE (Continued)

Lease Revenue Refunding Bonds, Series 2018A (tax-exempt) and 2018B (taxable)

On May 14, 2018, the Revenue Authority issued Lease Revenue Refunding Bonds (Upper Marlboro Courthouse Project), \$15,255,000 Series 2018A (Tax-Exempt) (the “Series 2018A Bonds”) and \$18,500,000 Series 2018B (Taxable) (the “Series 2018B Bonds,” and together with the Series 2018A Bonds, the “Bonds”). The Bonds are limited obligations of the Issuer payable solely from and secured by certain payments to be made by Prince George’s County, Maryland (the “County”) pursuant to financing leases.

The Series 2018A and 2018B Lease Revenue Refunding 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 2018A and 2018B Bonds is payable according to the terms specified by the Indenture semiannually on May 1 and November 1 of each year commencing on November 1, 2018. Interest on the Series 2018A and 2018B Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months. The Term 2030 Bonds were issued at a premium of \$1,884,034. The premiums are being amortized over the life of the term of bonds. The Bonds were issued in two series as follows:

| | <u>Principal Amount</u> | <u>Rate</u> | <u>Final Maturity</u> |
|------------------------|-------------------------|-------------|-----------------------|
| Series 2018A Term 2030 | \$15,255,000 | 5.00% | 1-May-30 |
| Series 2018B Term 2030 | \$18,500,000 | 3.98% | 1-May-30 |

The total interest payments on the bonds for the year ended June 30, 2018, was \$106,860.

The Bonds are subject to optional redemption and mandatory redemption from rent revenues. Principal payments on the Bonds are due each May 1 beginning May 1, 2019 from rental revenues subject to the maximum cumulative redemption amounts.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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JUNE 30, 2018**

NOTE 10: BONDS PAYABLE (Continued)

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 Rental Revenues available on May 1st of the following years:

| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------|----------------------|---------------------|----------------------|
| 2019 | \$ 3,925,000 | \$ 1,282,318 | \$ 5,207,318 |
| 2020 | 2,230,000 | 1,213,823 | 3,443,823 |
| 2021 | 2,295,000 | 1,141,003 | 3,436,003 |
| 2022 | 2,385,000 | 1,053,805 | 3,438,805 |
| 2023 | 2,485,000 | 961,491 | 3,446,491 |
| 2024-2028 | 13,985,000 | 3,211,790 | 17,196,790 |
| 2029-2030 | 6,450,000 | 426,006 | 6,876,006 |
| | <u>\$ 33,755,000</u> | <u>\$ 9,290,236</u> | <u>\$ 43,045,236</u> |

NOTE 11: RESTRICTIONS OF NET ASSETS

| | <u>2018</u> |
|--|----------------------------|
| Net assets are restricted for the following purposes: | |
| Bond Reserve Fund for Series 2016 bonds | \$ 2,000,000 |
| County Supplement for Suitland Land Acquisitions | 4,124,492 |
| Closed Circuit Television Repair & Replacement Reserves | <u>8,798</u> |
| Total restricted net assets | <u><u>\$ 6,133,290</u></u> |

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 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.

| Designated Reserve Funds | 2018 |
|---------------------------------------|---------------------|
| Special Projects | \$ 2,109,815 |
| Maintenance | 2,480,556 |
| Operating | 977,925 |
| Total designated reserve funds | \$ 5,568,296 |

NOTE 13: 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, 2018, the Authority agreed to pay to the County \$850,000 for shared parking fine revenues.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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JUNE 30, 2018**

NOTE 13: RELATED PARTY TRANSACTIONS (Continued)

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 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, 2018.

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, 2018.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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NOTE 13: RELATED PARTY TRANSACTIONS (Continued)

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, 2018.

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

Prince George's County (2018A and B Lease and Debt Issuance)

During the year ended June 30, 2018 the Authority, the Industrial Development Authority of Prince George's County (IDA), and the County entered into agreements where the Authority issued debt to refund debt outstanding of IDA for the Upper Malboro Courthouse and DuVall Wing. The Authority would take an ownership interest in the related property and would then lease the capital assets to the County for rent payments equal to the effective debt service on the debt.

Prince George's County (Ground Lease -Upper Marlboro Courthouse)

The Authority and the County entered into a lease agreement dated May 1, 2018 (the Ground Lease Agreement) wherein the County agreed to lease the ("Land") Northeast section of the intersection of Water Street and Justice Road to the Authority. The term of the ground lease shall be from May 1, 2018 to June 30, 2035, unless terminated earlier in accordance with the ground lease.

Under the terms of this agreement, the Authority shall pay unto the County, as rent, Thirty Dollars (\$30) annually in advance with the initial payment due on the lease commencement date and each subsequent payment being due on the next anniversary of the lease commencement date. Pursuant to the agreement, the Authority paid rent of \$30 for the year ended June 30, 2018.

Prince George's County (Lease - DuVall Wing)

The Authority and the County also entered into a lease agreement dated May 1, 2018 (the Lease Agreement) wherein the County agreed to lease any and all improvements located thereon comprising the DuVall Wing of the Prince George's County Courthouse ("Leased Project") to the Authority. The term of the lease shall be from May 1, 2018 to May 1, 2035 unless such term is sooner terminated or relinquished in accordance with the lease.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
NOTES TO FINANCIAL STATEMENTS
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NOTE 13: RELATED PARTY TRANSACTIONS (Continued)

Under the terms of this agreement, the Authority shall pay unto the County, as rental fee, Thirty Dollars (\$30) in advance for the term of this Lease on the commencement date of this agreement. Pursuant to the agreement, the Authority paid the one time rental fee of \$30 for the year ended June 30, 2018.

Due to Prince George's County consisted of the following activity during the year ended June 30, 2018:

| | |
|--|----------------------------|
| Annual facilities lease | \$ (150,000) |
| Annual fines distribution | (850,000) |
| Annual Ground Lease UM Courthouse | (30) |
| Lease DuVall Wing project | (30) |
| Public Safety | (198,207) |
| Rent receivable, July 1, 2017 - June 30, 2018 | 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 2018 | 18,772 |
| DPWT 2018 outstanding invoices | 14,215 |
| Fed Ex Field events reimb 2018 | <u>12,355</u> |
| Net due to County | <u>\$ (327,925)</u> |

NOTE 14: 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.

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
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JUNE 30, 2018**

NOTE 14: COMMITMENTS (Continued)

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 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, 2018, the Authority paid \$103,000.

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

| <u>Year ending June 30,</u> | |
|--------------------------------------|----------------------------|
| 2019 | \$ 399,100 |
| 2020 | 402,541 |
| 2021 | 409,624 |
| 2022 | 420,371 |
| 2023 | <u>103,920</u> |
| Future minimum lease payments | <u>\$ 1,735,556</u> |

Rent expense for the year ended June 30, 2018 was \$337,495.

NOTE 15: 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, 2018, total contributions by the Authority to the eligible employees of the 401K retirement plan were \$194,189.

NOTE 16: 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.

SUPPLEMENTAL INFORMATION

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018**

| Assets | Operating | Economic Development | Total |
|--|----------------------|---------------------------------|----------------------|
| Current assets | | | |
| Cash, cash equivalents and Investments | \$ 7,433,419 | \$ 10,320,893 | \$ 17,754,312 |
| Parking and other receivables, net | 15,988,859 | 6,375 | 15,995,234 |
| Note Receivable | 1,484,924 | - | 1,484,924 |
| Lease Receivable | 3,925,000 | - | 3,925,000 |
| Other current assets | 153,070 | - | 153,070 |
| Total current assets | 28,985,272 | 10,327,268 | 39,312,540 |
| Non-Current assets | | | |
| Lease Receivable | 31,700,860 | - | 31,700,860 |
| Equity Investment in Joint Ventures | 5,794,726 | - | 5,794,726 |
| Capital assets not being depreciated | 3,539,744 | 27,666,435 | 31,206,179 |
| Capital assets being depreciated, net | 2,301,154 | - | 2,301,154 |
| Total noncurrent assets | 43,336,484 | 27,666,435 | 71,002,919 |
| Total assets | 72,321,756 | 37,993,703 | 110,315,459 |
| Liabilities and Net Position | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | 1,499,513 | 712,974 | 2,212,487 |
| Due to WMATA | 42,583 | - | 42,583 |
| Due to Prince George's County | 327,925 | - | 327,925 |
| Due to others | 76,687 | - | 76,687 |
| Unearned grant revenue | 681,655 | - | 681,655 |
| Deposits held | 25 | 12,974 | 12,999 |
| Capital lease obligation, current portion | 205,181 | - | 205,181 |
| Bond interest payable | 106,860 | - | 106,860 |
| Bond payable | 3,925,000 | - | 3,925,000 |
| Total current liabilities | 6,865,429 | 725,948 | 7,591,377 |
| Noncurrent liabilities | | | |
| Bonds payable | 31,700,860 | 28,162,515 | 59,863,375 |
| Capital lease obligation, net of current portion | 284,993 | - | 284,993 |
| Total noncurrent liabilities | 31,985,853 | 28,162,515 | 60,148,368 |
| Total liabilities | 38,851,282 | 28,888,463 | 67,739,745 |
| Net Position | | | |
| Net investment in capital assets | 5,350,724 | 3,378,403 | 8,729,127 |
| Restricted | 8,798 | 6,124,492 | 6,133,290 |
| Unrestricted | | | |
| Equity Investment in Joint Venture | 5,794,726 | - | 5,794,726 |
| Designated | 5,409,821 | 158,475 | 5,568,296 |
| Undesignated | 16,906,405 | (556,130) | 16,350,275 |
| Total Net Position | \$ 33,470,474 | \$ 9,105,240 | \$ 42,575,714 |

**REVENUE AUTHORITY OF
PRINCE GEORGE'S COUNTY**
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Operating</u> | <u>Economic Development</u> | <u>Total</u> |
|--|-----------------------------|---------------------------------|-----------------------------|
| Operating Revenues | | | |
| Parking operations | \$ 16,329,036 | \$ - | \$ 16,329,036 |
| Rent income from Prince George's County | 660,000 | - | 660,000 |
| Rental Income | - | 354,693 | 354,693 |
| Management fee - red light | 812,500 | - | 812,500 |
| Management fee - false alarm | 99,130 | - | 99,130 |
| Management fee - automated speed enforcement | 56,350 | - | 56,350 |
| Other | 1,069,779 | 16,015 | 1,085,794 |
| Total operating revenues | <u>19,026,795</u> | <u>370,708</u> | <u>19,397,503</u> |
| Operating Expenses | | | |
| Parking operations | 10,850,476 | - | 10,850,476 |
| General and administrative | 3,265,865 | - | 3,265,865 |
| Depreciation and amortization | 756,801 | - | 756,801 |
| Rent payment to Prince George's County | 150,060 | - | 150,060 |
| Rental Expense | - | 171,475 | 171,475 |
| Property Tax | - | 107,623 | 107,623 |
| Real Estate Development Cost | - | 249,835 | 249,835 |
| Other | - | 157,573 | 157,573 |
| Total operating expenses | <u>15,023,202</u> | <u>686,506</u> | <u>15,709,708</u> |
| Operating income | <u>4,003,593</u> | <u>(315,798)</u> | <u>3,687,795</u> |
| Non-Operating Revenues (Expenses) | | | |
| TIF Revenue | - | 1,011,443 | 1,011,443 |
| Interest income | 135,289 | 163,559 | 298,848 |
| Interest expense | (111,604) | (1,368,109) | (1,479,713) |
| Contribution from IDA | 5,060,682 | - | 5,060,682 |
| Contribution to the County | (5,060,682) | - | (5,060,682) |
| Net non-operating expenses | <u>23,685</u> | <u>(193,107)</u> | <u>(169,422)</u> |
| Change in net position | 4,027,278 | (508,905) | 3,518,373 |
| Net position, beginning of year, | <u>29,443,196</u> | <u>9,614,145</u> | <u>39,057,341</u> |
| Net Position, End of Year | <u><u>\$ 33,470,474</u></u> | <u><u>\$ 9,105,240</u></u> | <u><u>\$ 42,575,714</u></u> |