



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Transportation District Commission of Hampton Roads
Hampton, Virginia

Years Ended
June 30, 2015 & 2014

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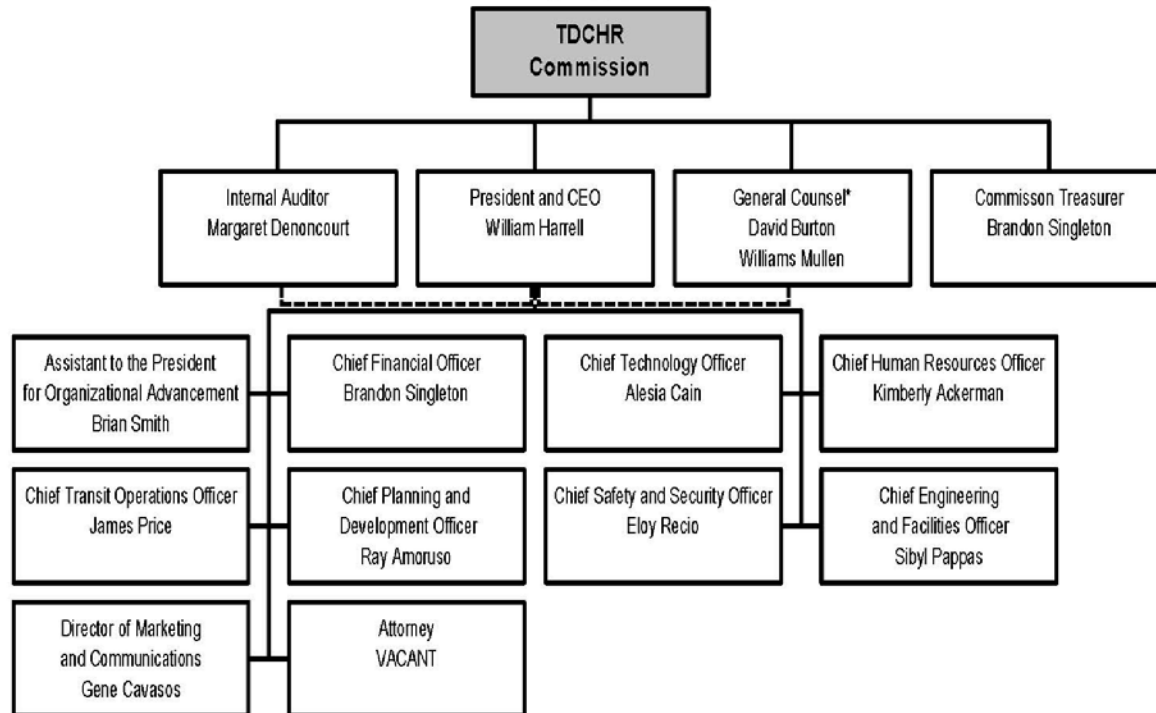
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Introductory Section

Hampton Roads Transit Transportation District Commission of Hampton Roads Organizational Chart 6-30-15



Note:

The General Counsel and Internal Auditor report to the President/CEO on daily business matters; but they serve at the pleasure of the Commission and have direct access to the Commission as required.

*Additional support provided by Attorney.

Members of the Commission

Chairman

William J. Moffett
City of Hampton

Vice - Chairman

James P. Toscano
City of Norfolk

Commissioners

Linwood Branch
City of Virginia Beach

Douglas W. Fuller
City of Chesapeake

Robert R. Harper, Jr.
City of Hampton

Charles B. Hunter
City of Portsmouth

Jennifer Mitchell
Virginia Department of Rail and Public Transportation

Allen C. Tanner, Jr.
City of Newport News

Richard W. West
City of Chesapeake

Barclay C. Winn
City of Norfolk

James L. Wood
City of Virginia Beach

Patricia P. Woodbury
City of Newport News

Kenneth I. Wright
City of Portsmouth

Executive Leadership Team

President and Chief Executive Officer
Chief Financial Officer
Chief Human Resources Officer
Chief Planning and Development Officer
Chief Technology Officer
Chief Safety and Security Officer
Chief Environmental and Facilities Officer
Chief Transit Operations Officer

William E. Harrell
Brandon K. Singleton
Kimberly Ackerman
Raymond Amoruso
Alesia Cain
Eloy Recio
Sibyl Pappas
James E. Price, Jr.

Finance Staff

Director of Finance
Assistant Director of Finance
Finance Manager
Director of Budget and Finance
Director of Procurement
Director of Revenue Services

Sylvia L. Shanahan
Debbie L. Ball
Hien Hoang
Angela Glass
Dyanne Sampson
Paul A. Croston



November 24, 2015

Chairman and Members of the Commission

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Transportation District Commission of Hampton Roads (Commission) for the fiscal year ended June 30, 2015. State law requires the Commission to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with Government Auditing Standards by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and the report does comply with state law and guidelines of the Auditor of Public Accounts of the Commonwealth of Virginia.

The Commission's Management assumes full responsibility for the accuracy, completeness, and reliability of all information presented in this report. In order to provide reasonable assurance regarding the data, the management of the Commission has designed a framework of internal accounting controls to protect the Commission's assets from loss of unauthorized use or disposition, provide reliability of financial records for preparing financial statements and maintain the accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and that the evaluation of costs and benefits requires estimates and judgments by management. We believe that the Commission's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Dixon Hughes Goodman LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the Commission's financial statements. The independent auditors' report is located at the front of the financial section of this report.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic consolidated financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Commission's MD&A can be found immediately following the report of the independent auditors.

Profile of the Commission

Transportation District Commission of Hampton Roads (TDCHR), *d.b.a.* Hampton Roads Transit (HRT), provides transit service in the Peninsula/Tidewater region of Southeastern Virginia.

HRT, incorporated on October 1, 1999, was established through the voluntary merger of the Peninsula Transportation District Commission (Pentran) and Tidewater Transit District Commission (TRT). This was the first voluntary merger of two transit agencies in the country. In August 2011, Virginia's first light rail line, The Tide, went into service.

Transportation District Commission of Hampton Roads (Commission) was established in accordance with Chapter 45 of Title 15.2 of the Code of Virginia, as amended, referred to as the Transportation District Act of 1964 and by ordinances by the governing bodies of its component governments. The purpose of the Commission is to provide reliable and efficient transportation and facilities to the Hampton Roads Community.

HRT operates a fleet of 286 buses for fixed-route service. The bus fleet consists of 249 standard 29-foot, 35-foot, and 40-foot transit coaches and 37 diesel-electric hybrid buses. The current peak requirement of 236 vehicles occurs in the summer season, with the nonseasonal peak requirement being 206 vehicles. HRT also has a fleet of 106 support vehicles and 116 vehicles that are provided by a paratransit contractor. HRT's ferry operation uses a fleet of 3 vessels. HRT also owns 9 light rail vehicles and facilitates the operation of 62 TRAFFIX/TDM vans.

Current services include the following routes:

- Bus: 56 Fixed Regular Bus Routes
8 MAX Express Routes
3 Seasonal Virginia Beach Wave Routes
7 Commuter Work Trips
- Light Rail: The Tide serving City of Norfolk
- Ferry: Elizabeth River Ferry serving Downtown Norfolk and Olde Towne Portsmouth
- Paratransit: Transportation services for Persons with Disabilities
- TRAFFIX: TRAFFIX is a Travel Demand Management program designed to promote and implement transportation alternatives. The TRAFFIX program is designed to decrease traffic congestion in southeastern Virginia by reducing the number of Single Occupancy Vehicles (SOV's) commuting to work by encouraging the usage of HOV lanes through ridesharing and by encouraging the usage of alternatives to driving such as public transportation, teleworking, biking and walking.

HRT operates from multiple facilities located throughout the service area. These facilities include the following:

- Two administrative facilities located at 509 E. 18th Street, Norfolk, VA and 3400 Victoria Boulevard, Hampton, VA;
- Three bus garages located at 509 E. 18 Street, Norfolk, VA, 3400 Victoria Boulevard, Hampton, VA; and 1400 Parks Avenue, Virginia Beach, VA;
- One light rail storage and maintenance facility at 1850 W. Brambleton Avenue, Norfolk, VA;
- Three transit centers located in Newport News, VA; Virginia Beach, VA; and Hampton, VA; and
- One light rail operations facility located at 3404 Mangrove Avenue, Norfolk, VA

Organizational Structure

The Commission's governing body consists of 13 members. Each of the six component governments will appoint one member of its governing body or the City Manager, who will serve at the pleasure of his or her respective component government. The Governor will appoint one citizen Commissioner with voting privileges from each City served by the Transportation District. The appointees will serve at the Governor's pleasure. The Chairperson of the Commonwealth Transportation Board, or a designee, will be a member, ex officio with voting privileges.

Economic Condition

HRT serves six cities that are a part of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). The Hampton Roads metropolitan area has a population of 1.68 million people and is ranked as the fifth-largest metro area in the Southeast US and the second largest metro area between Atlanta and Washington, DC. Hampton Roads has a stable and increasingly diverse population, intricate and unique economy with stable employment, effective but aging transportation system, and favorable education attainment levels.

The Government Sector is the largest employer in Hampton Roads followed by the Health Care and Social Assistance Sectors and Retail Trade. Hampton Roads is home to one of the largest concentrations of Department of Defense (DOD) personnel in the United States. Hampton Roads also has the largest naval base in the world, the only NATO command on U.S. soil and the presence of all five military services, operating forces and major commands. Efficient and effective public transportation is critical to ensuring military preparedness.

In 2014, the real, inflation-adjusted growth rate of the Hampton Roads economy was 1.34 percent. This was higher than our annual regional rate of growth in five out of the past six years. This is still almost half the national rate of growth but almost 80 percent of the estimated 2015 Commonwealth of Virginia economic growth rate. Job recovery in Hampton Roads in recent years has trailed both Virginia and the United States.

Employment in the local MSA area increased from 762,600 in June 2014 to 772,400 as of June 2015. Virginia's employment in June 2014 was 3,774,900 and increased to 3,820,000 as of June 2015. The unemployment rate has an inverse effect from the employment. As of June 2014, the unemployment rate was 5.8% in the local MSA and 5.2% for the state of Virginia in comparison to 5.5% for the local MSA and 4.9% for the state at June 2014.

Budget and Funding

The Commission's budget is prepared on a fiscal year basis beginning July 1st and ending June 30th. The Commission operates as an enterprise fund with the budget prepared as a flexible budget which serves as an approved plan to facilitate budgetary control and operational evaluations. As an enterprise fund, the budget is adopted on an accrual basis, the same basis used to record actual results.

Depreciation expense is not budgeted in the operating budget. Capital improvement outlays are mostly budgeted in a Grant Funding budget separate from the operating budget. All departments and operations over which the Commission exercises responsibility are included in the budget process. The annual budget is a balanced budget, whereby, total estimated revenue always equal projected expenses.

Hampton Roads Transit has no dedicated revenue source. Funding for service is provided with federal, state and local funding provided by member jurisdictions, and passenger revenue. Local funding is provided based on the Cost Allocation Agreement where each city establishes how much service will be provided within its borders based on how much it is willing to pay for those services after all federal, state, and farebox revenue are applied.

The Cost Allocation Agreement was adopted in 1999 with the merger of Pentran and Tidewater Regional Transit. The purpose of the agreement is to meet the local government funding needs of the participating cities on an equitable basis within the limits of available resources. The agreement states how costs and revenue will be divided by the cities according to transportation use. Each participating city is billed quarterly and at the end of the fiscal year remaining balances are trued-up resulting in either additional costs or refunds to each participating city.

Long-Term Planning

The Commission's Capital Improvement Plan is a six-year capital program based on an objective prioritization of capital needs. The six-year plan is prepared to ensure that the agency executives and Commission members have a full picture of the agency's capital needs, priorities, and funding constraints based on anticipated revenue.

The plan is updated annually and includes a complete list of capital needs, a priority rating for each need, a program for what can be funded given reasonably anticipated revenue, and a prioritized list of unfunded capital projects.

While the expectation is to have the capital funds needed to implement certain critical improvements to the agencies vehicles and facilities over the life of the plan, there are many key needs that the anticipated funding is unable to address. The Capital Improvement Plan outlines the process for developing the list of capital needs, prioritizing the needs, developing the revenue estimates, and the resultant capital program. The following is a list of completed, underway and future projects:

Completed Projects

- Full rebuild of ADA-compliant Military Circle Transfer Center.
- Replacement of 76 Paratransit vehicles.
- New bus stop signs at over 1,000 locations including addition of snow routes.

Projects Underway

- Construction of permanent Downtown Norfolk Transit Center by the City of Norfolk in cooperation with HRT and the Virginia Department of Rails and Public Transportation.
- The Virginia Beach Transit Extension Study (VBTES) project will seek approval to enter into New Starts Project Development phase and is expected that an Environmental Record of Decision will be issued for the locally preferred Alternative and that a funding plan will be in place to extend Light Rail into the city of Virginia Beach.
- Sale of property at 1500 Monticello Avenue.
- Replacement of 34 buses.
- Complete rebuild of 28 buses and midlife rebuild/repower of 38 buses.
- Addition of 14 new Vintage Trolley vehicles for the Oceanfront bus service.

Future Projects

- Rehabilitation and renovation of 3400 Victoria Blvd. Administrative and Operating Division in Hampton.
- Replace 3 ferries and refurbish existing ferry docks.
- Purchase and implement a new Financial Software System, upgrade to the HASTUS scheduling software, and improved asset management software.

Awards and Achievements

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governmental units that publish an easily readable and efficiently organized comprehensive annual financial report that meets all generally accepted accounting principles and applicable legal requirements. Hampton Roads Transit has received this award for its comprehensive annual financial report for the fiscal year ended June 30, 2014.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedicated efforts of the entire financial department.

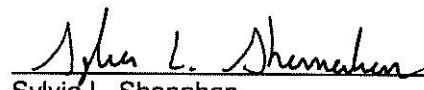
The Transportation District Commission of Hampton Roads also thanks the board of Commissioners for their continued support in planning and conducting the financial operations of the Commission in a responsible manner.

Additionally, appreciation is extended to Dixon Hughes Goodman LLP for their guidance and professional assistance in the preparation of this report.

Respectfully submitted,



Brandon Singleton
Chief Financial Officer/Commission Treasurer



Sylvia L. Shanahan
Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Transportation District Commission
of Hampton Roads, Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Financial Section

Independent Auditors' Report

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic consolidated 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 consolidated 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 opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Specification for Audits of Authorities, Boards and Commissions issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ***Transportation District Commission of Hampton Roads'*** preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of ***Transportation District Commission of Hampton Roads***, as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Notes 2 and 3 to the financial statements, the financial statements as of and the year ended June 30, 2014 were restated due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, in 2015. Our opinion is not modified with respect to these changes.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 - 16 and schedule of changes in net pension liability and related ratios and schedule of contributions on pages 49 - 54 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated 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 audits of the 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.

Report on Supplementary Information

The Schedule of Revenue - Actual and Budgeted on page 47 and the Schedule of Expenses - Actual and Budgeted on page 48 is presented to supplement the basic consolidated financial statements. The accompanying basic financial information, listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated basic consolidated financial statements that collectively comprise the ***Transportation District Commission of Hampton Roads'*** financial statements taken as a whole. The Introductory Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying information listed in the compliance section in the accompanying table of contents, including the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Government and Non-Profit Organization, is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements.

The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on them

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2015, on our consideration of the ***Transportation District Commission of Hampton Roads***' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the ***Transportation District Commission of Hampton Roads***' internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Newport News, VA
November 24, 2015**

Transportation District Commission of Hampton Roads Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Transportation District Commission of Hampton Roads' (Commission) activities and financial performance provides the reader with an introduction and overview to the basic consolidated financial statements for the year ended June 30, 2015. Following this MD&A are the basic consolidated financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the basic consolidated financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's basic consolidated financial statements, which follow this narrative.

Financial Operations Highlights

Below are highlights of the Commission's activities for fiscal year 2015.

- The decrease in net position for 2015 was \$12.3 million. The majority of this change is attributable to depreciation and amortization costs during the fiscal year that are not recovered by operating grants and subsidies.
- Operating revenue of approximately \$21 million were 17% or approximately \$3.0 million more than fiscal year 2014, primarily due to the increased contract revenues.
- Operating expenses of approximately \$126 million (including depreciation and amortization) increased by 5.6% or \$6.6 million due to increased personnel costs, major bus repairs, insurance claims and bad debts written off this past year.
- Subsidies and grants of approximately \$80 million were 7% or approximately \$5.2 million greater than fiscal year 2014.
- At the end of the fiscal year, unrestricted net position was \$(6,905,393) a decrease of \$2,005,494 and Commission designated funds for self-insurance increased by \$741,835 to a balance of \$3.2 million.

Summary of Operations and Changes in Net Position

	Year Ended June 30, 2015	Restated Year Ended June 30, 2014	Year Ended June 30, 2013
Operating revenue	\$ 21,304,682	\$ 18,263,898	\$ 16,427,275
Operating expenses	126,510,942	119,813,367	118,668,472
Operating loss before subsidies and grants	(105,206,260)	(101,549,469)	(102,241,197)
Subsidies and grants	80,140,500	74,907,981	71,304,102
Operating loss before other income (expenses)	(25,065,760)	(26,641,488)	(30,937,095)
Other income (expenses)	(7,160,354)	(7,962,398)	(8,404,768)
Loss before proceeds from capital grants	(32,226,114)	(34,603,886)	(39,341,863)
Proceeds from capital grants	19,936,757	17,805,078	15,764,870
Change in net position	\$ (12,289,357)	\$ (16,798,808)	\$ (23,576,993)

Transportation District Commission of Hampton Roads Management's Discussion and Analysis

The Commission implemented GASB Statement 68 this year. With the new reporting change, the Commission is allocated its proportionate share of the Virginia Retirement System's (VRS) and the Retirement Plan of Hampton Roads District Commissions' net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance increased beginning net position by \$4,588,220. Please see Note 3 to the basic consolidated financial statements for more information.

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by approximately \$315.8 million at June 30, 2015.

A condensed summary of the Commission's net position are shown below:

	June 30, 2015	June 30, 2014 Restated	June 30, 2013
Assets			
Current assets	\$ 31,947,553	\$ 26,392,425	\$ 21,279,415
Capital assets - net	323,975,826	337,811,975	358,553,259
Other assets	443,710	615,035	634,198
Deferred outflow of resources	2,980,152	2,785,169	-
Total assets	<u>359,347,241</u>	<u>367,604,604</u>	<u>380,466,872</u>
Liabilities			
Current liabilities	34,389,403	29,963,505	24,246,965
Long-term liabilities	9,308,186	13,203,389	7,610,000
Deferred inflow of resources	3,501,299	-	-
Total liabilities	<u>47,198,888</u>	<u>43,166,894</u>	<u>31,856,965</u>
Net Position			
Invested in capital assets	315,780,324	330,817,010	349,872,457
Unrestricted	(6,905,393)	(8,910,887)	(2,396,171)
Restricted	3,273,422	2,531,587	1,133,621
Total net position	<u>\$ 312,148,353</u>	<u>\$ 324,437,710</u>	<u>\$ 348,609,907</u>

The largest portion of the Commission's net position each period represents its investment in capital assets (e.g., land, buildings, improvements, and equipment). The Commission uses these capital assets to provide services to its passengers. Consequently, these assets are not available for future spending.

**Transportation District Commission of Hampton Roads
Management's Discussion and Analysis**

Revenue

A summary of revenue is as follows:

	<u>2015 Amount</u>	<u>Percent of Total</u>	<u>Restated 2014 Amount</u>	<u>Percent of Total</u>	<u>2013 Amount</u>	<u>Percent of Total</u>
Operating						
Passenger fares	\$ 17,058,634	76.1%	\$ 16,847,734	80.1%	\$ 15,059,102	91.5%
Charters and contracts	2,790,843	12.5%	175,422	.8%	18	-
Vanpool rentals	99,010	0.5%	128,864	.6%	177,911	1.1%
Auxiliary	1,166,888	5.2%	914,629	4.3%	1,005,820	6.2%
Nontransportation	189,307	0.9%	197,249	1.0%	184,424	1.0%
Total operating	<u>21,304,682</u>	<u>95.2%</u>	<u>18,263,898</u>	<u>86.8%</u>	<u>16,427,275</u>	<u>99.8%</u>
Nonoperating						
Gain (loss) on sale of capital assets	(56,954)	(0.3%)	(8,313)	-	25,093	0.2%
Interest income	2,840	0.1%	2,079	-	4,760	-
Pension benefit	1,180,335	5.0%	2,785,169	13.2%	-	-
Total nonoperating	<u>1,126,221</u>	<u>4.8%</u>	<u>2,778,935</u>	<u>13.2%</u>	<u>29,853</u>	<u>0.2%</u>
Total revenue	<u>\$ 22,430,903</u>	<u>100.0%</u>	<u>\$ 21,042,833</u>	<u>100.0%</u>	<u>\$ 16,457,128</u>	<u>100.0%</u>

Expenses

A summary of expenses is as follows:

	<u>2015 Amount</u>	<u>Percent of Total</u>	<u>Restated 2014 Amount</u>	<u>Percent of Total</u>	<u>2013 Amount</u>	<u>Percent of Total</u>
Operating						
Labor	\$ 39,565,925	29.4%	\$ 38,365,599	29.4%	\$ 37,029,933	29.9%
Fringe benefits	18,679,778	13.9%	17,881,389	13.7%	15,935,969	12.9%
Depreciation and amortization	28,913,830	21.4%	28,280,028	21.7%	30,582,193	24.7%
Materials and supplies	15,355,599	11.4%	14,419,137	11.0%	14,079,082	11.4%
Insurance - net of ordinary recoveries	4,860,863	3.6%	3,469,574	2.7%	4,308,865	3.5%
Purchase of transportation services	8,364,927	6.2%	8,664,786	6.6%	8,320,274	6.7%
Contractual services	7,212,163	5.4%	6,328,661	4.8%	5,765,101	4.6%
Utilities	1,242,038	0.9%	1,402,569	1.1%	1,361,074	1.1%
Other	2,315,819	1.7%	1,001,624	0.8%	1,285,981	0.8%
Total operating	<u>126,510,942</u>	<u>93.9%</u>	<u>119,813,367</u>	<u>91.8%</u>	<u>118,668,472</u>	<u>95.6%</u>
Nonoperating						
Interest expense	538,750	0.4%	539,967	0.4%	631,645	.5%
Noncapitalized grant Expenditures	7,747,825	5.7%	10,201,366	7.8%	7,802,976	3.8%
Total nonoperating	<u>8,286,575</u>	<u>6.1%</u>	<u>10,741,333</u>	<u>8.2%</u>	<u>8,434,621</u>	<u>4.3%</u>
Total expenses	<u>\$ 134,797,517</u>	<u>100.0%</u>	<u>\$ 130,554,700</u>	<u>100.0%</u>	<u>\$ 127,103,093</u>	<u>100.0%</u>

**Transportation District Commission of Hampton Roads
Management's Discussion and Analysis**

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past three periods. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	Year Ended June 30, 2015	Restated Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities	\$ (74,233,551)	\$ (71,807,144)	\$ (75,966,232)
Cash flows from noncapital financing activities	80,990,500	77,307,981	72,904,102
Cash flows from capital and related financing activities	(8,219,250)	(5,066,130)	4,891,097
Cash flows from investing activities	2,840	2,079	4,760
Net change in cash and cash equivalents	(1,459,461)	436,786	1,833,727
Cash and cash equivalents - beginning of period	4,690,891	4,254,105	2,420,378
Cash and cash equivalents - end of period	<u>\$ 3,231,430</u>	<u>\$ 4,690,891</u>	<u>\$ 4,254,105</u>

The Commission's available cash and cash equivalents decreased from approximately \$4.7 million at the end of 2014 to \$3.2 million at the end of 2015.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2015, the Commission expended approximately \$9.7 million on capital activities from grant and operating funds. This amount included \$3.2 million for buses, approximately \$4.5 million for vans, approximately \$1.2 million for garage equipment, and approximately \$.80 million for other capital items.

Capital asset acquisitions and improvements exceeding \$5,000 are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants with matching State grants and local funds. Additional information about HRT's capital assets can be found in Note 7 to the financial statements

Debt

At June 30, 2015, the Commission owed \$14,350,000 against its \$17,000,000 revolving line of credit, primarily due to the timing of government receivables.

On June 1, 2006, the Commission entered into a financing arrangement with the Virginia Resources Authority (VRA), whereby VRA provided \$12,770,000 of proceeds from a bond issuance to the Commission for the purchase of buses. Annual debt service began October 1, 2006, and the debt matures October 1, 2017. Interest is payable semiannually each April 1st and October 1st. Principal payments are due on October 1st of each year.

On June 1, 2007, the Commission entered into a second financing arrangement with VRA, whereby VRA provided \$4,975,000 of proceeds from a bond issuance to the Commission for the purchase of additional buses. Annual debt service began October 1, 2008, and the debt matures October 1, 2017. Interest is payable semiannually each April 1st and October 1st. Principal payments are due on October 1st of each year.

At June 30, 2015, the Commission owed \$5,830,000 on these bonds, with \$1,860,000 of principal payments due in fiscal year 2016. More detailed information about HRT's long-term liabilities is presented in Note 10 to the consolidated financial statements.

Transportation District Commission of Hampton Roads Management's Discussion and Analysis

Basic Consolidated Financial Statements

The Commission's basic consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Commission is structured as a single enterprise fund with revenue recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and except land are depreciated over their useful lives. Certain amounts are restricted for debt service and, where applicable, for construction activities. See the notes to the basic consolidated financial statements for a summary of the Commission's significant accounting policies.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Chief Financial Officer, Hampton Roads Transit, 3400 Victoria Boulevard, Hampton, VA 23661.

Consolidated Financial Statements

**Transportation District Commission of Hampton Roads
Consolidated Statements of Net Position
June 30, 2015 and 2014**

	<u>2015</u>	<u>As Restated 2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,231,630	\$ 4,690,891
Due from governments	21,259,143	14,587,838
Accounts receivable	732,862	430,281
Inventories	5,023,706	4,437,753
Prepaid expenses	1,700,212	2,245,662
Total current assets	<u>31,947,553</u>	<u>26,392,425</u>
Noncurrent Assets		
Capital assets - net of accumulated depreciation	323,975,826	337,811,975
Intangible assets - net	443,710	615,035
Total noncurrent assets	<u>324,419,536</u>	<u>338,427,010</u>
	<u>356,367,089</u>	<u>364,819,435</u>
Deferred Outflow of Resources		
Deferred pension contributions	2,980,152	2,785,169
	<u>\$ 359,347,241</u>	<u>\$ 367,604,604</u>
LIABILITIES AND NET PENSION		
Current liabilities		
Notes payable - bank	\$ 14,350,000	\$ 13,500,000
Current portion of long-term debt	1,860,000	1,780,000
Current portion of long-term capital lease	357,764	-
Accounts payable	6,126,167	4,808,139
Accrued expenses	4,003,728	3,661,428
Self-insurance liability	4,273,422	3,531,587
Advanced capital contributions	3,418,322	2,682,351
Total current liabilities	<u>34,389,403</u>	<u>29,963,505</u>
Other Liabilities		
Long-term capital lease	2,451,448	-
Long-term debt	3,970,000	5,830,000
Net pension liability	2,886,738	7,373,389
Total other liabilities	<u>9,308,186</u>	<u>13,203,389</u>
Total liabilities	<u>43,697,589</u>	<u>43,166,894</u>
Deferred Inflow of Resources		
Deferred pension investment experience	3,501,299	-
	<u>47,198,888</u>	<u>43,166,894</u>
Net position		
Investment in capital assets	315,780,324	330,817,010
Unrestricted	(6,905,393)	(8,910,887)
Restricted	3,273,422	2,531,587
Total net position	<u>312,148,353</u>	<u>324,437,710</u>
	<u>\$ 359,347,241</u>	<u>\$ 367,604,604</u>

See accompanying notes.

Transportation District Commission of Hampton Roads
Consolidated Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	As Restated 2014
Operating revenue		
Passenger fares	\$ 17,058,634	\$ 16,847,734
Charters and contracts	2,790,843	175,422
Vanpool rentals	99,010	128,864
Auxiliary	1,166,888	914,629
Nontransportation	189,307	197,249
	<u>21,304,682</u>	<u>18,263,898</u>
Operating expenses		
Labor	39,565,925	38,365,599
Fringe benefits	18,679,778	17,881,389
Depreciation and amortization	28,913,830	28,280,028
Materials and supplies	15,355,599	14,419,137
Purchase of transportation services	8,364,927	8,664,786
Contractual services	7,212,163	6,328,661
Insurance - net of ordinary recoveries	4,860,863	3,469,574
Utilities	1,242,038	1,402,569
Other	2,315,819	1,001,624
	<u>126,510,942</u>	<u>119,813,367</u>
Operating loss before subsidies and grants	(105,206,260)	(101,549,469)
Subsidies and grants	80,140,500	74,907,981
Operating loss before other income (expenses)	<u>(25,065,760)</u>	<u>(26,641,488)</u>
Other income (expenses)		
Interest income	2,840	2,079
Interest expense	(538,750)	(539,967)
Gain (loss) on sale of capital assets	(56,954)	(8,313)
Pension benefit	1,180,335	2,785,169
Noncapitalized grant expenditures	(7,747,825)	(10,201,366)
	<u>(7,160,354)</u>	<u>(7,962,398)</u>
Loss before proceeds from capital grants	(32,226,114)	(34,603,886)
Proceeds from capital grants	19,936,757	17,805,078
Change in net position	(12,289,357)	(16,798,808)
Net position - beginning of year	324,437,710	341,236,518
Net position - end of year	<u>\$ 312,148,353</u>	<u>\$ 324,437,710</u>

See accompanying notes.

**Transportation District Commission of Hampton Roads
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>As Restated 2014</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 21,002,101	\$ 18,450,416
Payments to suppliers for goods and services	(37,332,049)	(35,227,404)
Payments to employees	(57,903,403)	(55,030,156)
Net cash from operating activities	<u>(74,233,351)</u>	<u>(71,807,144)</u>
Cash flows from noncapital financing activities		
Operating subsidies and grants received	80,140,500	74,907,981
Increase in note payable - bank	850,000	2,400,000
Net cash from operating activities	<u>80,990,500</u>	<u>77,307,981</u>
Cash flows from capital and related financing activities		
Increase in advanced capital contributions	735,971	540,861
Interest expense	(538,750)	(539,967)
Acquisition of capital assets and intangible assets	(15,020,636)	(7,696,770)
Noncapitalized grant expenditures	(7,747,825)	(10,201,366)
Proceeds from disposition of capital assets	56,760	-
Proceeds from capital grants	16,393,309	14,536,112
Payments on long-term capital lease	(318,079)	-
Payments on long-term debt	(1,780,000)	(1,705,000)
Net cash from capital and related financing activities	<u>(8,219,250)</u>	<u>(5,066,130)</u>
Cash flows from investing activities		
Interest income	2,840	2,079
Net change in cash and cash equivalents	(1,459,261)	436,786
Cash and cash equivalents - beginning of year	4,690,891	4,254,105
Cash and cash equivalents - end of year	<u>\$ 3,231,630</u>	<u>\$ 4,690,891</u>
Non-cash transactions		
Capital lease agreement to acquire seven buses	\$ 3,127,291	\$ -

See accompanying notes.

**Transportation District Commission of Hampton Roads
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	\$ (105,206,260)	\$ (101,549,469)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	28,913,830	28,280,028
Change in:		
Accounts receivable	(302,581)	186,518
Inventories	(585,953)	(1,102,323)
Prepaid expenses	545,450	(322,577)
Accounts payable	1,318,028	1,286,201
Accrued expenses	342,300	1,216,832
Self-insurance liability	741,835	197,646
Net cash from operating activities	<u>\$ (74,233,351)</u>	<u>\$ (71,807,144)</u>

Notes to Financial Statements

1. Organization and Nature of Business

The *Transportation District Commission of Hampton Roads* (Commission) was formed on June 29, 1999, to effect the merger of the Peninsula Transportation District Commission (PTDC) and the Tidewater Transportation District Commission (TTDC) effective October 1, 1999. The Commission was established in accordance with Chapter 45 of Title 15.2 of the *Code of Virginia* (1950), as amended, referred to as the Transportation District Act of 1964 and by ordinances as adopted by the governing bodies of its component governments. The Commission provides public transportation facilities and services within the Cities of Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, and Virginia Beach, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives (Commissioners). Responsibility for the day-to-day operations of the Commission rests with professional management.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Transit Management Company (Subsidiary) is a wholly owned subsidiary of the Commission. The Subsidiary pays all payroll related expenses for union employees and operates on a break-even basis by having the Commission reimburse the Subsidiary's expenses. Accounts of the Subsidiary are included in the basic consolidated financial statements. All intercompany accounts and transactions have been eliminated in consolidation.

GASB Adoption

The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (“GASB No. 68”) during fiscal year 2015. GASB No. 68 provides accounting financial reporting guidance for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions and related disclosures. The accounting changes required by GASB No. 68 are applied retroactively by reclassifying the statement of net position and results of operations.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Transportation District Commission of Hampton Roads' Retirement Plan and the additions to/deductions from the Transportation District Commission of Hampton Roads' net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Accounts Receivable

The Commission evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. The effect of using this method approximates that of the allowance method.

Inventories

Parts inventories are stated at the lower of cost or market using the average cost method. The cost of fuel and oil inventories is determined using the first-in, first-out (FIFO) method. Inventories are used for operations and are not for resale.

Capital Assets

Capital assets, which include infrastructure, equipment, property (e.g., buses, ferries and docks, trolleys, and light rail vehicles) and intangible assets (e.g., computer software) are reported at cost and depreciated using the straight-line method based on estimated useful lives of 3 to 50 years. Capital assets other than equipment, property and infrastructure assets are defined by HRT as an asset with initial individual cost of \$5,000 or more with a useful life greater than one year. The cost of repairs and maintenance that do not add value or extend an asset's life are not capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized. Most property and equipment is acquired with grant proceeds so the method and use of proceeds from disposition of property and equipment is restricted by the grant requirements.

Capital assets are depreciated using the straight-line method with estimated useful lives:

	<u>Years</u>
Buildings and renovation	10 - 50
Rail vehicles and infrastructure	10 - 30
Ferries and docks	10 - 20
Large and small buses, heavy duty transit (approx. 30' - 40')	10 - 12
Computer equipment and software	3 - 13
Vans	3 - 4
Trolleys	7

Revenue

Revenue is recognized when services are provided. Operating grant subsidies and expense reimbursements are recognized in accordance with the grant document or reimbursement agreement. Generally, these agreements provide for reimbursement to the Commission for operating expenses incurred. Operating subsidies from the municipalities provide for reimbursement to the Commission based on services provided within the various jurisdictions.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term highly liquid investments with an original purchased maturity of three months or less.

Transportation District Commission of Hampton Roads Notes to Consolidated Financial Statements

Net Position

Net position represents the residual interest in the Commission's assets after liabilities are deducted and consist of three sections: invested in capital assets; restricted for self-insurance; and unrestricted. Invested in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to capital expenditures. The Commissions' restricted amounts for self-insurance are expendable and relate to amounts restricted for the self-insurance liability. Unrestricted amounts may be designated for specific purposes by action of management or the board of commissioners.

Budgets and Budgetary Accounting

The Commission's annual budget for transit activities is a management tool that assists users in analyzing financial activity for its June 30, fiscal year. The Commission's primary funding sources are federal and state grants and local subsidies, which have periods that may or may not coincide with the Commission's fiscal year. These grants and subsidies are normally for a twelve-month period; however, they may be awarded for periods shorter or longer than twelve months.

Because of the Commission's dependency on federal, state and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The Commission's annual budget differs from that of a local government due to the uncertain nature of grant awards from other entities.

The resultant annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant awards from those estimated;
- Unanticipated grant awards not included in the budget; and
- Expected grant awards that fail to materialize.

The Commissioners formally approve the annual budget but greater emphasis is placed on complying with the grant budget, whose terms and conditions are on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances.

Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities for the reported period. Actual results could differ from those estimates and assumptions.

Advertising Costs

Advertising costs are charged to operations when incurred. For 2015 and 2014, \$378,665 and \$265,775, respectively, of advertising costs were charged to operations.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 24, 2015, the date the financial statements were available to be issued.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

3. Retrospective Application of a Change in Accounting Principle

The following table summarizes the effects of the implementation of GASB No. 68 in the statements of net position:

	(As Previously Reported) June 30, 2014	Record Effects of GASB 68	(As Adjusted) June 30, 2014
Total assets	\$ 364,819,435	\$ -	\$ 364,819,435
Deferred outflows of resources	-	2,785,169	2,785,169
Total liabilities	35,793,505	7,373,169	43,166,894
Net position			
Net investment in capital assets	330,817,010	-	330,817,010
Restricted	2,531,587	-	2,531,587
Unrestricted	(4,322,667)	(4,588,220)	(8,910,887)
Total net position	<u>\$ 329,025,930</u>	<u>\$ (4,588,220)</u>	<u>\$ 324,437,710</u>

	(As Previously Reported) June 30, 2014	Record Effects of GASB 68	(As Adjusted) June 30, 2014
Total operating revenues	\$ 18,263,898	\$ -	\$ 18,263,898
Total operating expenses	119,813,367	-	119,813,367
Operating loss before provision of depreciation	(101,549,469)	-	(101,549,469)
Subsidies and grants	74,907,981	-	74,907,981
Operating loss	(26,641,488)	-	(26,641,488)
Nonoperating revenue	(10,747,567)	0	(7,962,398)
Loss before proceeds from capital grants	(37,389,055)	0	(34,603,886)
Proceeds from capital grants	17,805,078	-	17,805,078
Change in net position	(19,583,977)	0	(16,798,808)
Total net position - beginning of year	<u>348,609,907</u>	<u>(7,373,389)</u>	<u>341,236,518</u>
Total net position - end of year	<u>\$ 329,025,930</u>	<u>\$ (7,373,389)</u>	<u>\$ 324,437,710</u>

4. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2015 and 2014, the carrying value of the Commission's deposits with banks was \$1,623,300 and \$1,545,102, respectively, and the bank balances were \$2,605,608 and \$2,701,914, respectively. All of the bank balance was insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of such excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. At June 30, 2015 and 2014, the Commission had \$1,228,268 and \$2,766,153, respectively, invested in money market funds. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

Transportation District Commission of Hampton Roads Notes to Consolidated Financial Statements

Investments

Investment Policy

In accordance with the Code of Virginia and other applicable laws, including regulations, the Commission's investment policy (Policy) permits investments in U.S. government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

The Policy establishes an investment committee consisting of the Chief Financial Officer, the President and Chief Executive Officer. The members of this committee meet quarterly to determine general investment strategies and to monitor results. The investment committee includes in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to Commission funds, authorized depositories and dealers, and the target rate of return on the investment portfolio.

Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of not less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

At June 30, 2015 and 2014, 100% of the Commission's cash equivalents were invested in money market funds and the State Treasurers Local Government Investment Pool.

The Virginia LGIP operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 and in accordance with the requirements of Statement No. 31 of the Government Accounting Standards Board "2a7-Like External Investment Pools."

The reported value of the pool is the same as the fair value of the pool shares.

Concentration of Credit Risk

The Commission's main depository is selected through a formal procurement process at least once every five years. The Chief Financial Officer selects dealers, brokers, and other depositories after a competitive evaluation process. In selecting depositories or dealers, the creditworthiness of the institutions, financial stability, credit characteristics, financial history and interest rates offered are considered. Preferences are given to depositories located within the six cities of the transportation district.

Dealers and financial institutions seeking to establish eligibility for the Commission's competitive certificate of deposit purchase programs for amounts not covered under FDIC or FSLIC insurance submits information as required, which shall be reviewed by the investment committee.

Before accepting funds or engaging in investment transactions with the Commission, the supervising officer at each depository submits a certification evidencing that he or she has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the depository and the Commission. All financial institutions shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in transaction with this entity.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Employees of any firm or financial institution offering securities or investment to the Commission are trained in the precautions appropriate to public sector investments and are required to familiarize themselves with the Commission's investment objectives and constraints.

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Commission's Policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase.

The carrying values and weighted average maturity, if applicable, of the Commission's cash and cash equivalents were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
<u>2015</u>	
Money market funds - Virginia LGIP	\$ 380,062
Other money market funds	1,228,268
Total cash equivalents	<u>1,608,330</u>
Total bank deposits	<u>1,623,300</u>
Total cash and cash equivalents	<u><u>\$ 3,231,630</u></u>
<u>2014</u>	
Money market funds - Virginia LGIP	\$ 379,636
Other money market funds	2,766,153
Total cash equivalents	<u>3,145,789</u>
Total bank deposits	<u>1,545,102</u>
Total cash and cash equivalents	<u><u>\$ 4,690,891</u></u>

Custodial Credit Risk

The assets of the Commission shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Investment officials shall be bonded to protect against possible embezzlement and malfeasance. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping.

5. Due from Governments

Government receivables consisted of the following:

	<u>2015</u>	<u>2014</u>
Federal Transit Administration	\$ 17,476,854	\$ 11,454,175
Commonwealth of Virginia	2,743,715	888,384
Local governments	<u>1,038,574</u>	<u>2,245,279</u>
	<u><u>\$ 21,259,143</u></u>	<u><u>\$ 14,587,838</u></u>

Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements

6. Inventories

Inventories consisted of the following:

	<u>2015</u>	<u>2014</u>
Bus and service vehicle parts	\$ 3,127,542	\$ 2,739,614
Light rail parts	1,695,190	1,522,943
Fuel and oil	200,974	175,196
	<u>\$ 5,023,706</u>	<u>\$ 4,437,753</u>

7. Capital and Intangible Assets

A summary of changes in capital assets follows:

	<u>Balance June 30, 2014</u>	Increases	Decreases	<u>Balance June 30, 2015</u>
Capital assets not being depreciated				
Land	\$ 9,020,376	\$ -	\$ (11,412)	\$ 9,008,964
Construction in process:				
Buildings and improvements	-	2,977,974	-	2,977,974
Equipment	-	1,035,785	-	1,035,785
Bus and trolley	-	1,251,616	-	1,251,616
Other	2,382,684	3,611	-	2,386,295
Total capital assets not being depreciated	<u>11,403,060</u>	<u>5,268,986</u>	<u>(11,412)</u>	<u>16,660,634</u>
Capital assets being depreciated				
Buses	92,224,018	3,224,184	(475,742)	94,972,460
Buildings and improvements	95,641,771	276,871	(3,378,608)	92,540,034
Equipment	27,900,826	1,235,350	(3,215,416)	25,920,760
Ferries and docks	7,018,453	241,411	-	7,259,864
Other	12,740,390	169,561	(6,460,763)	6,449,188
Vehicles	6,665,245	4,592,836	(1,912,369)	9,345,712
Intangibles	9,490,817	11,435	(4,202,812)	5,299,440
Light rail	256,096,178	-	-	256,096,178
Total capital assets being depreciated	<u>507,777,698</u>	<u>9,751,648</u>	<u>(19,645,710)</u>	<u>497,883,636</u>
Less accumulated depreciation and amortization for:				
Buses	60,330,945	6,238,030	(482,862)	66,086,113
Buildings and improvements	29,733,405	4,566,658	(3,309,437)	30,990,626
Equipment	22,308,988	1,956,518	(3,213,549)	21,051,957
Ferries and docks	5,665,775	263,323	-	5,929,098
Other	9,898,125	1,000,688	(6,435,609)	4,463,204
Vehicles	6,183,435	1,093,331	(1,898,529)	5,378,237
Intangibles	8,875,783	182,805	(4,202,858)	4,855,730
Light rail	37,757,292	13,612,477	-	51,369,769
Total accumulated depreciation and amortization	<u>180,753,748</u>	<u>28,913,830</u>	<u>(19,542,844)</u>	<u>190,124,734</u>
Total capital assets being depreciated - net	<u>327,023,950</u>	<u>(19,162,182)</u>	<u>(102,866)</u>	<u>307,758,902</u>
Total capital assets - net	<u>\$ 338,427,010</u>	<u>\$ (13,893,196)</u>	<u>\$ (114,278)</u>	<u>\$ 324,419,536</u>

**Transportation District Commission of Hampton Roads
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8. Unearned Reimbursements - Net

Amounts advanced (owed) by (to) participating municipalities or the Commonwealth of Virginia pursuant to various operating subsidy and/or grant agreements are as follows:

	<u>2015</u>	<u>2014</u>
City of Chesapeake	\$ 17,367	\$ 53,594
City of Hampton	9,798	72,362
City of Newport News	(100,008)	(4,821)
City of Norfolk	67,738	78,353
City of Portsmouth	221,276	(17,797)
City of Virginia Beach	(422,185)	(181,059)
	<u>\$ (206,014)</u>	<u>\$ 632</u>

For 2015 and 2014, the amounts owed by participating municipalities are included in due from governments in the consolidated statements of net position.

9. Notes Payable - Bank

The Commission has a revolving line of credit of \$17,000,000, which matures January 31, 2016. Advances on the lines of credit were collateralized by the pledging of all revenue, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 77% of the London Interbank Offered Rate (LIBOR) plus 166 basis points with a floor of 2%, (2% at June 30, 2015). At June 30, 2015 and 2014, the Commission owed \$14,350,000 and \$13,500,000, respectively, against the lines of credit.

10. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	<u>2015</u>	<u>2014</u>
Balance - July 1	\$ 7,610,000	\$ 9,315,000
Increases	-	-
Decreases	(1,780,000)	(1,705,000)
Balance - June 30	<u>\$ 5,830,000</u>	<u>\$ 7,610,000</u>
Amount due within one year	<u>\$ 1,860,000</u>	<u>\$ 1,780,000</u>

On June 1, 2006, the Commission entered into a financing arrangement with the Virginia Resources Authority (VRA), whereby VRA provided \$12,770,000 of proceeds from the VRA's issuance of Infrastructure Revenue Bonds, Series 2006A. The debt requires the Commission to pay interest at variable rates ranging from 3.5838% to 4.2416%. Interest is payable semiannually each April 1st and October 1st. Annual principal payments of varying amounts began October 1, 2007, through the termination date of October 1, 2017. Proceeds from the debt were used to establish a fund for the acquisition of buses and related equipment during fiscal year 2007.

On June 1, 2007, the Commission entered into a second financing arrangement with the Virginia Resources Authority (VRA), whereby VRA provided \$4,975,000 of proceeds from the VRA's issuance of Infrastructure Revenue Bonds, Series 2007A. The debt requires the Commission to pay interest at variable rates ranging from 4.10% to 4.595%. Interest is payable semiannually each April 1st and October 1st. Annual principal payments of varying amounts begin October 1, 2008, through the termination date of October 1, 2017. Proceeds from the debt were used to establish a fund for the acquisition of buses and related equipment during fiscal year 2008.

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During the term of the financing, title to the buses will remain with the Commission. To secure its obligations, VRA created a security interest in all of the property and equipment purchased with the proceeds. The Commission also agreed to maintain the equipment free of any liens, pledges and/or encumbrances of any kind.

Debt service is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,860,000	\$ 205,642
2017	3,970,000	154,321
	<u>\$ 5,830,000</u>	<u>\$ 359,963</u>

11. Lease Transactions

Operating Lease

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2015 and 2014, lease expense was \$87,550 each year.

Capital Leases

In 2015, the Commission entered into a capital lease to purchase seven 40ft buses to add to their fleet. The buses are capitalized at a cost of \$3,127,291. Depreciation expense on these assets under lease was \$238,861 and is included in depreciation expense on the statements of revenue, expenses and changes in net position and resulted in accumulated depreciation of \$238,861.

Future minimum lease payments under this lease are as follows.

2016	\$ 445,704
2017	445,704
2018	445,704
2019	445,704
2020	445,704
Thereafter	<u>928,550</u>
Total future minimum lease payments	3,157,070
Less - amounts representing interest	<u>(347,858)</u>
Total principal due under capital lease obligation	2,809,212
Less - current portion	<u>(357,764)</u>
Long-term portion of capital lease obligation	<u>\$ 2,451,448</u>

12. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	<u>2015</u>	<u>2014</u>
Federal	\$ 23,868,534	\$ 16,484,429
State	18,260,157	20,873,749
Local	<u>38,011,809</u>	<u>37,549,803</u>
	<u>\$ 80,140,500</u>	<u>\$ 74,907,981</u>

13. Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2015 and 2014, contributions received from local governments exceeded amounts expended by \$3,418,322 and \$2,682,351, respectively, and are shown in the accompanying consolidated statements of net position as advanced capital contributions.

14. Defined Benefit Pension Plan

Virginia Retirement Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

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		<ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

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<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

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		<p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.</p> <p>Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

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		<p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions</p>
<p>Average Final Compensation A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

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<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Normal Retirement Age VRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable.</p>
<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p><u>Eligibility:</u> Same as Plan 1.</p>	<p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

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<p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one- year waiting period before becoming eligible for non-work- related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on- year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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Employees Covered by Benefit Terms

As of the June 30, 2014, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>67</u>
Inactive members:	
Vested	32
Non-vested	132
Active elsewhere in VRS	<u>33</u>
Total inactive members	<u>197</u>
Active members	<u>282</u>
Total	<u>546</u>

Contributions

The contributions requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Commission contractually required contribution rate for the year ended June 30, 2015, was 5.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were \$1,029,823 and \$924,593 for the years ended June 30, 2015 and 2014, respectively.

Net Pension Liability

The Commission's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions

The total pension liability for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

Transportation District Commission of Hampton Roads Notes to Consolidated Financial Statements

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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Long-Term Expected Rate of Return

The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u><u>8.33%</u></u>

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2013	\$ 28,758,034	\$ 27,135,824	\$ 1,622,210
Changes for the year:			
Service cost	1,670,516	-	1,670,516
Interest	1,965,831	-	1,965,831
Contributions - employer	-	922,759	(922,759)
Contributions - employee	-	772,006	(772,006)
Net investment income	-	4,318,470	(4,318,470)
Benefit payments, including refunds of employee contributions	(1,349,458)	(1,349,458)	-
Administrative expense	-	(22,726)	22,726
Net changes	-	227	(227)
Balances at June 30, 2014	<u>\$ 31,044,923</u>	<u>\$ 31,777,102</u>	<u>\$ (732,179)</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability calculated using the stated discount rate, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's net pension liability (asset)	\$ 3,549,843	\$ (732,179)	\$ (4,281,537)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Commission recognized pension benefit of \$535,337. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	\$ 1,029,838	\$ -
Net difference between projected and actual earnings on plan investments	-	1,926,131
	<u>\$ 1,029,838</u>	<u>\$ 1,926,131</u>

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Amounts reported as deferred inflows of resources related to pensions as of June 30, 2015, will be recognized in pension expense as follows:

2016	\$	(481,533)
2017		(481,533)
2018		(481,533)
2019		(481,532)
		(481,532)
	\$	(1,926,131)

Retirement Plan of the Transportation District Commission of Hampton Roads

Plan Description

Effective January 1, 2012, the Transit Employees of Tidewater Disability and Retirement Allowance Plan and Retirement Plan of Hampton Roads Transportation District Commission merged to become Retirement Plan of the Transportation District Commission of Hampton Roads (Plan). The Plan represents Transit Management Company (Subsidiary), a wholly owned subsidiary of the Commission, which covers principally those employees subject to the Commission's union bargaining agreement between the Commission and the Local Union 1177 (Union), Norfolk, VA, of the Amalgamated Transit Union, dated July 1, 2010. The Plan is a single employer defined benefit plan administered by the Transportation District Commission of Hampton Roads. The plan provides pensions for all collectively bargained employees of HRT.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported to the Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Employees Covered by Benefit Terms

As of the December 31, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	276
Inactive members entitled to but not yet receiving benefits:	29
Active members	579
Total	884

Benefits Provided

All collectively bargained employees are eligible to participate in the Plan upon completion of 60 consecutive days of service. Benefits vest after completing ten years of service. Employees who retire after age 65 with 10 years of service, age 61 where the sum of age and years of service is greater than or equal to 85, or any age with at least 25 years of service are entitled to a retirement benefit. The monthly benefit is determined using a formula of 1.6% of Final Average Monthly Compensation (the employees' highest five year average monthly compensation, plus any accumulated and unused sick leave at retirement) times years of service.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Contributions

The Plan is subject to minimum funding standards set out in the collective bargaining agreement. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees contribute 3% of compensation to fund the plan. The Commission is required to contribute the remainder of the actuarially determined rate, unless that rate falls outside of the predefined corridor of 7.5% to 9.5% of total compensation. For the fiscal year ending June 30, 2015, the actuarially determined rate was 11.28% of annual pay.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the employer contributions are made at the actuarially determined rates within the corridor specified in the collective bargaining agreement. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the pension liability.

Net Pension Liability

The Commission’s net pension liability was measured as of December 31, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of December 31, 2014, using updated actuarial assumptions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability calculated using the stated discount rate of 7.25%, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Plan’s Net Pension Liability	\$ 10,170,759	\$ 3,618,917	\$ (1,969,578)

The components of the net pension liability of the HRT at December 31, 2014, were as follows:

Total pension liability	\$ 61,294,113
Plan fiduciary net position	57,675,196
Plan’s net pension liability	3,618,917
Plan fiduciary net position as a percentage of the total pension liability	94.10%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	7.75% for the first five years after date of hire, 3.75% thereafter
Investment rate of return	7.25%, net of pension plan investment expense

Mortality rates for healthy participants were based on the RP-2000 Combined Healthy Blue Collar Mortality Table for Males or Females, as appropriate. Mortality rates for disabled retirees were based on the same tables set forward five years.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

The on-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014, are summarized in the following table.

Asset Class	Target Asset Allocation	December 31, 2014 Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	TBD	46.99%	6.70%
International developed markets equity	TBD	12.00%	7.40%
Core fixed income	TBD	23.99%	1.60%
High yield fixed income	TBD	10.02%	4.45%
Alternative investments	TBD	7.00%	3.60%

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$ 59,651,486	\$ 53,900,307	\$ 5,751,179
Changes for the year:			
Service cost	1,992,694	-	1,992,694
Interest	1,881,747	-	1,881,747
Contributions - employer	-	1,862,410	(1,862,410)
Contributions - employee	-	899,747	(899,747)
Net investment income	-	4,588,910	(4,588,910)
Benefit payments, including refunds of employee contributions	(3,488,251)	(3,488,251)	-
Administrative expense		(127,927)	127,927
Other changes	1,256,437	40,000	1,216,437
Net changes	1,642,627	3,774,889	(2,132,262)
Balances at June 30, 2014	\$ 61,294,113	\$ 57,675,196	\$ 3,618,917

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Commission recognized pension benefit of \$649,998. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	\$ 1,950,314	\$ -
Net difference between projected and actual earnings on plan investments	-	1,575,168
	\$ 1,950,314	\$ 1,575,168

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Amounts reported as deferred inflows of resources related to pensions as of June 30, 2015, will be recognized in pension expense as follows:

2016	\$	(389,455)
2017		(389,455)
2018		(389,455)
2019		(389,456)
2020		(17,347)
	\$	<u>(1,575,168)</u>

15. Compensated Absences

All full-time salaried employees not covered under collective bargaining agreements earn vacation in accordance with Commission policy as follows:

<u>Length of Service</u>	<u>Days Earned Per Year</u>
1 - 5 years	10 days
6 - 10 years	15 days
More than 10 years	20 days

All nonunion employees may accumulate annual leave up to a maximum of 320 hours to be carried into any one calendar year or to be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2015 and 2014, the Commission has accrued \$1,189,743 and \$1,110,263, respectively, for compensated absences.

16. Contingencies

Self-Insurance

The Commission is self-insured with a retention amount of \$1,000,000 of each occurrence. The Commission purchases excess insurance above the retention.

The Commission is a defendant in various lawsuits incidental to its business relating primarily to bodily injury claims for which it self-insures. Management has reviewed the various lawsuits and accrued an amount for the estimated financial exposure resulting from these lawsuits. Management believes any potential additional liability from these lawsuits will not have a material adverse effect on the Commission's consolidated financial condition.

Workers' Compensation Insurance

The Commission is also self-insured for workers' compensation. To minimize the potential for excessive claims, the Commission obtained excess workers' compensation insurance. The Commission is self-insured with a retention amount of \$600,000 of each occurrence. The Commission purchases excess insurance above the retention.

**Transportation District Commission of Hampton Roads
Notes to Consolidated Financial Statements**

Federally Assisted Grant Programs

The Commission participates in a number of federally assisted grant programs. Although the Commission has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the Commission believes such disallowances, if any, will not be significant.

17. City of Portsmouth

In fiscal year 2015, matters from a dispute with the City of Portsmouth regarding route services was settled in court. \$929,384 was written off to bad debt expense and is reported in other expenses on the consolidated statements of revenues, expenses and changes in net position.

Supplementary Information

**Transportation District Commission of Hampton Roads
Enterprise Fund - Transit Activity
Schedule of Revenue - Actual and Budgeted
Year Ended June 30, 2015**

	Actual	Budgeted	Actual Over (Under) Budget
Revenue			
Passenger fares	\$ 17,058,634	\$ 21,900,000	\$ (4,841,366)
Charters and contracts	2,790,843	-	2,790,843
Vanpool rentals	99,010	-	99,010
Auxiliary	1,166,888	-	1,166,888
Nontransportation	189,307	-	189,307
Total revenue	<u>21,304,682</u>	<u>21,900,000</u>	<u>(595,318)</u>
Subsidies and grants			
Municipal subsidies	38,011,809	39,500,000	(1,488,191)
State operating subsidies	18,260,157	20,900,000	(2,639,843)
Federal operating grants	<u>23,868,534</u>	<u>17,600,000</u>	<u>6,268,534</u>
Total subsidies and grants	<u>80,140,500</u>	<u>78,000,000</u>	<u>2,140,500</u>
Total revenue, subsidies and grants	<u>\$ 101,445,182</u>	<u>\$ 99,900,000</u>	<u>\$ 1,545,182</u>

Reconciliation to revenue shown in the consolidated statement of revenue, expenses and changes in net position is as follows:

As reflected in the consolidated statement of revenue, expenses and changes in net position

Operating revenue	\$ 21,304,682
Subsidies and grants	<u>80,140,500</u>
	<u>\$ 101,445,182</u>

**Transportation District Commission of Hampton Roads
Enterprise Fund - Transit Activity
Schedule of Expenses - Actual and Budgeted
Year Ended June 30, 2015**

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	\$ 58,245,703	\$ 57,500,000	\$ 745,703
Materials and supplies	15,355,599	14,900,000	455,599
Insurance - net of ordinary recoveries	5,602,698	6,400,000	(797,302)
Purchase of transportation services	8,364,927	9,100,000	(735,073)
Contractual services	7,212,163	8,300,000	(1,087,837)
Utilities	1,242,038	1,400,000	(157,962)
Other	2,315,819	2,400,000	(84,181)
Total transit activity expenses before depreciation and amortization	<u>\$ 98,338,947</u>	<u>\$ 100,000,000</u>	<u>\$ (1,661,053)</u>

Reconciliation to expenses shown in the consolidated statement of revenue, expenses and changes in net position is as follows:

Total transit activity expenses before depreciation	\$ 98,338,947
Depreciation and amortization	28,913,830
Self-insurance net increase in net position	<u>(741,835)</u>
	<u>\$ 126,510,942</u>

Required Supplementary Information

Transportation District Commission of Hampton Roads
Enterprise Fund - Transit Activity
Schedule Changes in Net Pension Liability (Asset) and Related Ratios
Virginia Retirement System
Year Ended June 30, 2014

Total pension liability	
Service cost	\$ 1,670,516
Interest	1,965,831
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(1,349,458)</u>
Net change in total pension liability	2,286,889
Total pension liability - beginning	<u>28,758,034</u>
Total pension liability - ending	<u><u>\$ 31,044,923</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 922,759
Contributions - employee	772,006
Net investment income	4,318,470
Benefit payments, including refunds of employee contributions	(1,349,458)
Administrative expense	(22,726)
Other	<u>227</u>
Net change in plan fiduciary net position	4,641,278
Plan fiduciary net position - beginning	<u>27,135,824</u>
Plan fiduciary net position - ending	<u><u>\$ 31,777,102</u></u>
Net pension liability (asset) - ending	<u><u>\$ (732,179)</u></u>
Plan fiduciary net position as a percentage of the total	
Pension liability	102%
Covered-employee payroll	\$ 15,945,689
Net pension liability (asset) as a percentage of covered-employee payroll	(5%)

Transportation District Commission of Hampton Roads
Enterprise Fund - Transit Activity
Schedule Changes in Net Pension Liability (Asset) and Related Ratios
Retirement Plan of the Transportation District Commission of Hampton Roads
Year Ended June 30, 2014

Total pension liability	
Service cost	\$ 1,992,694
Interest	1,881,747
Changes of benefit terms	-
Differences between expected and actual experience	1,256,437
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(3,488,251)</u>
Net change in total pension liability	1,642,627
Total pension liability - beginning	<u>59,651,486</u>
Total pension liability - ending	<u><u>\$ 61,294,113</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 1,862,410
Contributions - employee	899,747
Net investment income	4,588,910
Benefit payments, including refunds of employee contributions	(3,488,251)
Administrative expense	(127,927)
Other	<u>40,000</u>
Net change in plan fiduciary net position	3,774,889
Plan fiduciary net position - beginning	<u>53,900,307</u>
Plan fiduciary net position - ending	<u><u>\$ 57,675,196</u></u>
Net pension liability - ending	<u><u>\$ 3,618,917</u></u>
Plan fiduciary net position as a percentage of the total	
Pension liability	94%
Covered-employee payroll	\$ 27,075,414
Net pension liability as a percentage of covered-employee payroll	13%

**Transportation District Commission of Hampton Roads
 Schedule of Employer Contributions
 Year Ended June 30, 2015**

Virginia Retirement System

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
2015	\$ 1,029,838	\$ 1,029,838	\$ -	\$ 15,945,689	6.46%

**Transportation District Commission of Hampton Roads
 Schedule of Employer Contributions
 Year Ended June 30, 2015**

Retirement Plan of Transportation District Commission

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
2015	\$ 1,950,314	\$ 1,950,314	\$ -	\$ 27,549,234	7.07%

Virginia Retirement Plan

Changes of Benefit Terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2013, are minimal.

Changes of assumptions

The following changes in actuarial assumptions were made effective June 30, 2013, based on the most recent experience study of the System for the four- year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

**Transportation District Commission of Hampton Roads
Notes to Required Supplementary Information**

Retirement Plan of the Transportation District Commission of Hampton Roads

Valuation date	Actuarial determined contribution rates are calculated as of the January 1 st 18 months prior to the beginning of the employer's fiscal year in which contributions are reported.
Actuarial cost method	Entry age normal
Amortization method	Open level dollar for remaining unfunded liability
Amortization period	30 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions																	
Investment rate of return	7.25% the net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the Plan's target asset allocation.																
Inflation rate	3.5%																
Project salary increases	7.75% for the first five years after date of hire, 3.75% thereafter																
Cost of living adjustments	N/A																
Retirement rates	<table> <thead> <tr> <th><u>Age</u></th> <th><u>Retirement Probability</u></th> </tr> </thead> <tbody> <tr> <td>50-55</td> <td>7%</td> </tr> <tr> <td>56-59</td> <td>4</td> </tr> <tr> <td>60</td> <td>10</td> </tr> <tr> <td>61</td> <td>15</td> </tr> <tr> <td>62-63</td> <td>40</td> </tr> <tr> <td>64</td> <td>30</td> </tr> <tr> <td>65 & older</td> <td>100</td> </tr> </tbody> </table>	<u>Age</u>	<u>Retirement Probability</u>	50-55	7%	56-59	4	60	10	61	15	62-63	40	64	30	65 & older	100
<u>Age</u>	<u>Retirement Probability</u>																
50-55	7%																
56-59	4																
60	10																
61	15																
62-63	40																
64	30																
65 & older	100																
Mortality rates	RP-2000 Combined Healthy Blue Collar Mortality Table with sex-distinct rates for healthy retirees. RP-2000 Combined Healthy Blue Collar Mortality Table with sex-distinct rates, set forward five years, for disabled retirees.																

Statistical Section

The following section of ***Transportation District Commission of Hampton Roads'*** Comprehensive Annual Financial Report provides detailed statistical information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about HRT's overall financial health.

Contents	Table
<i>Financial Trends</i> These tables contain trend information to help the reader understand how HRT's financial performance and well-being have changed over time.	I - II
<i>Revenue Capacity</i> These tables contain information to help the reader assess HRT's local revenue source.	III
<i>Debt Capacity</i> This table presents information to help the reader assess the affordability of HRT's current level of outstanding debt.	IV
<i>Demographic and Economic Information</i> These tables offer demographic and economic indicators to help the reader understand the environment within which HRT's financial activities take place.	V - VI
<i>Demographic and Operating Information</i> These tables contain service and infrastructure data to help the reader understand how the information in HRT's financial report relates to the services it provides and the activities it performs.	VII - VIII

**Transportation District Commission of Hampton Roads
Condensed Statements of Net Position
Last Ten Fiscal Years**

Table I

	2015	As Restated 2014	2013	2012	2011	2010	2009	2008	2007	2006
Net position										
Investment in capital assets	\$ 315,780,324	\$ 330,817,010	\$ 349,872,457	\$ 370,882,384	\$ 362,464,665	\$ 275,482,561	\$ 178,363,138	\$ 75,055,817	\$ 39,215,630	\$ 42,380,359
Unrestricted	(6,905,393)	(8,910,887)	(2,396,171)	358,355	322,598	40,836	2,273,787	1,949,808	2,277,306	2,625,830
Restricted	3,273,422	2,531,587	1,133,621	946,161	1,196,616	(705,515)	(1,179,259)	(1,437,514)	(1,500,386)	(1,161,813)
	<u>\$ 312,148,353</u>	<u>\$ 324,437,710</u>	<u>\$ 348,609,907</u>	<u>\$ 372,186,900</u>	<u>\$ 363,983,879</u>	<u>\$ 274,817,882</u>	<u>\$ 179,457,666</u>	<u>\$ 75,568,111</u>	<u>\$ 39,992,550</u>	<u>\$ 43,844,376</u>

**Transportation District Commission of Hampton Roads
Net Position and Changes in Net Position
Last Ten Fiscal Years**

Table II

	As Restated									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating revenue										
Passenger fares	\$ 17,058,634	\$ 16,847,734	\$ 15,059,102	\$ 16,563,517	\$ 15,329,690	\$ 14,751,980	\$ 16,953,602	\$ 15,671,379	\$ 15,389,194	\$ 14,851,755
Charters and contracts	2,790,843	175,422	18	13,742	19,200	76,800	125,905	48,872	69,046	104,876
Vanpool rentals	99,010	128,864	177,911	170,138	174,831	177,058	168,817	144,734	129,519	116,131
Auxiliary	1,166,888	914,629	1,005,820	731,827	291,817	269,226	276,053	370,495	315,411	441,190
Nontransportation	189,307	197,249	184,424	189,229	338,116	266,398	150,813	128,050	120,963	154,474
Total operating revenue	21,304,682	18,263,898	16,427,275	17,668,453	16,153,654	15,541,462	17,675,190	16,363,530	16,024,133	15,668,426
Operating expenses										
Labor	39,565,925	38,365,599	37,029,933	36,459,948	31,358,906	30,574,713	29,165,179	26,477,853	25,589,158	23,577,151
Fringe benefits	18,679,778	17,881,389	15,935,969	15,919,415	14,841,910	14,947,924	13,955,007	13,197,440	12,066,929	11,536,164
Depreciation and amortization	28,913,830	28,280,028	30,582,193	23,535,796	10,561,359	11,956,938	10,607,127	10,153,014	7,253,593	9,125,980
Materials and supplies	15,355,599	14,419,137	14,079,082	14,309,506	12,123,871	11,370,908	14,554,686	11,790,604	11,282,036	10,865,827
Purchase of transportation services	8,364,927	8,664,786	8,320,274	8,084,487	8,229,824	7,317,820	6,700,651	5,981,429	5,673,287	5,718,726
Contractual services	7,212,163	6,328,661	5,765,101	5,665,506	4,997,821	4,485,524	3,806,872	3,377,753	3,716,817	3,377,825
Insurance - net of ordinary recoveries	4,860,863	3,469,574	4,308,865	7,196,743	3,274,247	3,765,591	3,490,501	2,989,774	2,789,248	3,459,879
Utilities	1,242,038	1,402,569	1,361,074	1,312,737	736,784	678,685	790,534	720,958	721,895	809,020
Other	2,315,819	1,001,624	1,285,981	1,083,639	960,543	669,995	1,504,933	1,574,515	922,095	1,043,342
Total operating expenses	126,510,942	119,813,367	118,668,472	113,567,777	87,085,265	85,768,098	84,575,490	76,263,340	70,015,058	69,513,914
Operating loss before subsidies and grants	(105,206,260)	(101,549,469)	(102,241,197)	(95,899,324)	(70,931,611)	(70,226,636)	(66,900,300)	(59,899,810)	(53,990,925)	(53,845,488)
Subsidies and grants	80,140,500	74,907,981	71,304,102	71,066,933	60,555,809	58,020,430	57,263,369	50,394,765	45,859,566	42,933,286
Operating loss before other income (expenses)	(25,065,760)	(26,641,488)	(30,937,095)	(24,832,391)	(10,375,802)	(12,206,206)	(9,636,931)	(9,505,045)	(8,131,359)	(10,912,202)
Other income (expenses)										
Interest income	2,840	2,079	4,760	3,109	11,460	13,535	83,469	406,255	759,618	135,623
Interest expense	(538,750)	(539,967)	(631,645)	(702,559)	(725,536)	(911,415)	(877,316)	(846,964)	(809,095)	(129,102)
Pension benefit (expense)	1,180,335	2,785,169	-	-	-	-	-	-	-	-
Gain (loss) on sale of capital assets	(56,954)	(8,313)	25,093	84,969	165,079	78,881	(205,541)	83,910	40,367	81,715
Noncapitalized grant expenditures	(7,747,825)	(10,201,366)	(7,802,976)	(11,313,086)	(11,680,362)	(7,210,393)	(7,966,713)	(9,576,307)	(10,732,282)	(6,971,868)
	(7,160,354)	(7,962,398)	(8,404,768)	(11,927,567)	(12,229,359)	(8,029,392)	(8,966,101)	(9,933,106)	(10,741,392)	(6,883,632)
Loss before proceeds from capital grants	(32,226,114)	(34,603,886)	(39,341,863)	(36,759,958)	(22,605,161)	(20,235,598)	(18,603,032)	(19,438,151)	(18,872,751)	(17,795,834)
Proceeds from capital grants	19,936,757	17,805,078	15,764,870	44,962,979	111,771,158	115,595,814	122,492,587	55,013,712	15,020,925	9,556,240
Change in net position	(12,289,357)	(16,798,808)	(23,576,993)	8,203,021	89,165,997	95,360,216	103,889,555	35,575,561	(3,851,826)	(8,239,594)
Net position - beginning of period	324,437,710	341,236,518	372,186,900	363,983,879	274,817,882	179,457,666	75,568,111	39,992,550	43,844,376	52,083,970
Net position - end of period	\$ 312,148,353	\$ 324,437,710	\$ 348,609,907	\$ 372,186,900	\$ 363,983,879	\$ 274,817,882	\$ 179,457,666	\$ 75,568,111	\$ 39,992,550	\$ 43,844,376

**Transportation District Commission of Hampton Roads
Fare Structure
Year Ended June 30, 2015**

Table III

Bus and Light Rail

Adult (1 trip)	1.75
Half Fare (1 trip)	0.75
Children (1 trip) (under 38 inches tall)	Free
1-Day GoPass	4.00
1 Day Go Pass Half Fare	2.00
1 Day Go Pass Bundle (5)	19.00
1 Day Go Pass Bundle Half Fare	9.50
7 Day	20.00
30 Day	60.00
30 Day Half Fare	35.00

Ferry

Adult (1 trip)	1.75
Half Fare (1 trip)	0.75
Children (1 trip) (under 38 inches tall)	Free
1-Day GoPass	4.00
1 Day Go Pass Half Fare	2.00
1 Day Go Pass Bundle (5)	19.00
1 Day Go Pass Bundle Half Fare	9.50
7 Day	20.00
30 Day	60.00
30 Day Half Fare	35.00

MAX

Adult (1 trip)	3.50
Half Fare (1 trip)	1.75
Children (1 trip) (under 38 inches tall)	Free
1-Day GoPass	6.50
1 Day Go Pass Bundle (5)	30.00
30 Day	110.00

VB Wave

Adult (1 trip)	2.00
Half Fare (1 trip)	1.00
Children (1 trip) (under 38 inches tall)	Free
1-Day GoPass	4.00
1 Day Go Pass Half Fare	2.00
3 Day	8.00
3 Day Half Fare	4.00

**Transportation District Commission of Hampton Roads
Ratio of Outstanding Debt
Last Ten Fiscal Years**

Table IV

Fiscal Year	Resources Series 2006A	Resources Series 2007A	Lease Ford Motor Company	Lease 401 Granby, L.L.C	Lease Sams Company	Lease Nova Bus	Total	Percentage of Annual Passenger	Unlinked Passenger Trips
2006	\$ 12,770,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,770,000	60.0%	21,291,144
2007	12,770,000	4,975,000	-	-	-	-	17,745,000	74.3%	23,873,765
2008	11,830,000	4,975,000	-	12,075	-	-	16,817,075	64.1%	26,221,854
2009	10,855,000	4,570,000	805,000	2,415	-	-	16,232,415	101.8%	15,950,176
2010	9,845,000	4,150,000	385,000	-	-	-	14,380,000	91.3%	15,751,071
2011	8,795,000	3,710,000	-	-	404,393	-	12,909,393	77.6%	16,638,794
2012	7,700,000	3,245,000	-	-	319,393	-	11,264,393	61.0%	18,460,946
2013	6,555,000	2,760,000	-	-	234,393	-	9,549,393	50.8%	18,810,119
2014	5,355,000	2,255,000	-	-	148,543	-	7,758,543	44.5%	17,415,928
2015	4,100,000	1,730,000	-	-	449,955	2,809,607	9,089,562	55.1%	16,486,715

**Transportation District Commission of Hampton Roads
Demographic and Economic Statistics¹
Last Ten Fiscal Years**

Table V

Year	Population 2	Personal Income 1	Per Capita Income 1	Unemployment Rate 3
2015	N/A	N/A	N/A	N/A
2014	1,680,081	N/A	N/A	5.8%
2013	1,699,925	75,342,217	44,321	6.4%
2012	1,688,876	72,626,600	43,051	6.8%
2011	1,676,012	69,931,246	41,725	7.0%
2010	1,669,874	66,654,130	39,916	7.1%
2009	1,658,106	64,587,037	38,952	6.9%
2008	1,652,316	66,082,935	39,994	4.2%
2007	1,653,503	63,725,279	38,540	3.2%
2006	1,655,647	60,344,479	36,448	3.3%

1 Virginia Beach-Norfolk-Newport News, VA-NC MSA
(Includes Gloucester, Isle of Wight, James City, Mathews and York Counties and Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg cities in Virginia and Currituck County and Gates County in North Carolina).

2 Source: U. S. Census Bureau

3 Source: Virginia Employment Commission(Virginia Beach-Norfolk-Newport News, VA-NC MSA)

N/A Not available

**Transportation District Commission of Hampton Roads
Principal Employers¹
Current and Nine Years Prior**

Table VI

	<u>2015 *</u>	<u>2006</u>
U.S. Department of Defense	1	1
Huntington Ingalls Industries, Inc.	2	2
Sentara Healthcare	3	4
City of Virginia Beach Schools	4	3
Walmart	5	5
Riverside Regional Medical Center	6	9
City of Virginia Beach	7	8
Chesapeake City Public School Board	8	7
Norfolk City School Board	9	6
City of Norfolk	10	-
Newport News Public Schools	-	10

1 Data collected is for the Virginia Beach-Norfolk-Newport News MSA (Virginia regions) (Includes Gloucester, Isle of Wight, James City, Mathews and York Counties and Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg cities in Virginia and Currituck County and Gates County in North Carolina).

Source: Virginia Employment Commission,
Each of the Top 10 employers had 1,000+ employees.

* Data for 2015 is 4th quarter ended December 31, 2014

**Transportation District Commission of Hampton Roads
Demographic and Operating Statistics¹
Last Ten Fiscal Years**

Table VII

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cities served 1	6	6	6	6	7	7	7	7	7	7
Square miles 1	421	421	515	515	515	369	369	369	369	369
Number of employees: 2										
Administrative FT	284	263	270	261	235	211	197	180	172	161
Administrative PT	90	85	76	81	36	27	33	42	39	68
Bargaining Unit FT	597	575	573	613	605	562	574	567	528	524
Bargaining Unit PT	59	79	103	99	134	72	72	152	134	121
	1,030	1,002	1,022	1,054	1,010	872	876	941	873	874
Maintenance facilities 1	6	6	6	6	6	5	5	5	3	3
Gallons of diesel fuel 1	2,530,231	2,616,249	2,535,071	2,698,447	2,811,773	2,874,687	3,098,729	2,961,967	2,964,999	2,953,169
Gallons of gasoline 1	579,115	557,185	587,615	453,533	545,282	528,579	503,575	137,096	70,176	49,801
Kilowatt hours of propulsion 1, 3	3,432,625	4,368,975	3,387,625	2,950,078	N/A	N/A	N/A	N/A	N/A	N/A

1 Source - National Transit Database

2 Source - Transportation District Commission of Hampton Roads Human Resources Department

3 Light Rail started operation in FY12

N/A No information available

**Transportation District Commission of Hampton Roads
Operating Indicators¹
Last Ten Fiscal Years**

Table VIII

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
2006					
Bus	282	10,902,421	801,280	20,533,661	96,527,481
Vanpool	38	647,388	19,656	171,612	5,800,536
Demand Response	75	2,766,620	176,469	232,835	2,116,832
Ferryboat	2	12,290	6,119	353,036	176,544
Total	359	14,328,719	1,003,524	21,291,144	104,621,393
2007					
Bus	279	10,653,462	804,743	23,029,163	88,535,209
Vanpool	43	725,390	20,080	222,386	7,470,011
Demand Response	68	2,756,071	172,815	236,272	1,987,385
Ferryboat	2	12,376	6,188	385,944	193,128
Total	392	14,147,299	1,003,826	23,873,765	98,185,733
2008					
Bus	291	11,250,976	826,256	25,322,228	102,151,705
Vanpool	46	697,774	20,240	282,601	7,786,075
Demand Response	64	2,841,514	158,515	240,011	2,665,503
Ferryboat	2	12,285	6,116	377,014	189,642
Total	403	14,802,549	1,011,127	26,221,854	112,792,925
2009					
Bus	290	11,907,422	872,488	15,194,872	92,658,600
Vanpool	52	798,511	26,367	165,066	5,527,683
Demand Response	71	3,141,304	195,409	267,162	3,206,397
Ferryboat	2	12,050	5,814	323,076	163,504
Total	415	15,859,287	1,100,078	15,950,176	101,556,184
2010					
Bus	227	11,003,538	808,594	14,955,012	98,160,468
Vanpool	55	823,994	26,398	171,703	6,025,451
Demand Response	74	3,273,196	204,380	307,034	3,444,866
Ferryboat	2	12,491	6,218	317,322	160,289
Total	358	15,113,219	1,045,590	15,751,071	107,791,074

**Transportation District Commission of Hampton Roads
Operating Indicators ¹
Last Ten Fiscal Years**

**Table VIII
(continued)**

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
2011					
Bus	221	10,832,392	799,657	15,815,418	100,436,425
Vanpool	52	901,364	24,375	180,000	6,702,708
Demand Response	80	3,438,711	218,711	347,499	3,919,622
Ferryboat	2	12,552	5,969	295,877	149,529
Total	355	15,185,019	1,048,712	16,638,794	111,208,284
2012					
Bus	240	10,494,200	799,786	16,166,441	99,459,300
Light Rail	7	323,239	25,478	1,359,915	5,648,374
Vanpool	52	945,663	24,641	194,623	7,077,317
Demand Response	84	2,692,602	176,932	293,002	2,547,951
Demand Taxi	75	778,913	44,023	64,571	885,535
Ferryboat	2	13,479	6,407	382,394	195,216
Total	460	15,248,096	1,077,267	18,460,946	115,813,693
2013					
Bus	234	9,975,729	794,369	16,217,920	91,880,790
Light Rail	7	376,007	30,345	1,762,284	7,004,670
Vanpool	54	943,950	24,474	188,780	6,933,420
Demand Response	82	3,451,692	221,875	303,925	2,649,310
Ferryboat	2	16,995	6,118	337,210	184,794
Total	379	14,764,373	1,077,181	18,810,119	108,652,984
2014					
Bus	233	9,975,085	740,586	15,024,190	75,683,206
Light Rail	6	372,032	29,810	1,587,929	6,296,325
Vanpool	47	828,572	21,149	159,642	5,343,342
Demand Response	86	2,821,403	184,814	311,789	2,487,677
Ferryboat	3	15,208	6,375	332,378	236,720
Total	375	14,012,300	982,734	17,415,928	90,047,270
2015*					
Bus	236	10,218,494	796,645	14,218,168	65,849,308
Light Rail	6	376,456	29,966	1,551,553	5,716,308
Vanpool	33	609,793	14,835	97,859	3,594,392
Demand Response	90	3,370,172	213,638	324,510	2,696,590
Ferryboat	3	18,955	6,597	294,625	209,583
Total	368	14,593,870	1,061,681	16,486,715	78,066,181

1 Source: National Transit Database

* Preliminary Data

Compliance Section

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of the **Transportation District Commission of Hampton Roads** and Subsidiary (Commission) as of and for the year ended June 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise **Transportation District Commission of Hampton Roads'** basic consolidated financial statements and have issued our report thereon dated November 24, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the **Transportation District Commission of Hampton Roads'** internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Transportation District Commission of Hampton Roads'** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Transportation District Commission of Hampton Roads'** internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Newport News, VA
November 24, 2015**

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on Compliance for Each Major Federal Program

We have audited ***Transportation District Commission of Hampton Roads*** and Subsidiary's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Transportation District Commission of Hampton Roads'*** major federal programs for the year ended June 30, 2015. The ***Transportation District Commission of Hampton Roads'*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ***Transportation District Commission of Hampton Roads'*** major programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***Transportation District Commission of Hampton Roads'*** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the ***Transportation District Commission of Hampton Roads'*** compliance.

Opinion on Each Major Federal Program

In our opinion, the ***Transportation District Commission of Hampton Roads*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of ***Transportation District Commission of Hampton Roads*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ***Transportation District Commission of Hampton Roads***' internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ***Transportation District Commission of Hampton Roads***' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Newport News, VA
November 24, 2015**

Transportation District Commission of Hampton Roads
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Year	Federal Catalogue Number	Total Expenditures
<u>Department of Transportation</u>				
Direct Payments				
Federal Transit Administration				
Capital Improvements Grants				
VA 04-0050	Southside Facility Project - Admin. Bldg.	2011	20.500	\$ 41,293
VA 04-0058	FY 12 Paratransit vans	2014	20.500	1,999,972
VA 04-0060	Passenger Shelters	2014	20.500	249,041
VA-05-0049	FY 12 5309 Fixedguideway	2015	20.500	723,000
VA 90-X428	FY 06 PM (RSTP)	2006	20.500	254,772
VA 90-X344	Capital Assistance	2009	20.500	5,807
VA 90-X359	5307 Capital Grant	2010	20.500	79,907
VA 90-X369	5307 Capital Grant	2011	20.500	13,504
VA 90-X381	5307 Preventative Maintenance	2012	20.500	45,265
VA 90-X395	5307 Capital Grant	2012	20.500	309,888
VA 95-X014	MAX/Ports Shuttle	2009	20.500	163,866
VA 95-X063	Patrick Henry Mall Transf/VB Rail Study	2009	20.500	1,486,533
VA 95-X080	CMAQ Newport News Shelters	2010	20.500	10,776
VA 95-X097	Transit Resigning	2011	20.500	689,265
VA 95-X119	Bus Purchase and TRAFFIX	2015	20.500	79,036
VA 95-X155	FY 2007 PM	2007	20.500	1,799,810
VA 95-X141	VBTES RSTP	2014	20.500	360,355
VA 90-X410	FY 14 5307 Partial	2014	20.500	4,109,155
VA-90-X430	FY 15 5307 Partial	2015	20.500	13,909,398
VA 20-X001	VB Transit in Park Grant	2014	20.500	105,454
				<u>26,436,097</u>
Federal Transit Administration Formula Grants				
VA 90-X320	FY08 Cap Grant	2008	20.507	12,296
VA 95-X081	Chesapeake Shelter Project	2010	20.507	27,403
				<u>39,699</u>
Federal Transit Administration State of Good Repair Grants Program				
VA-54-0001	FY 13/15 Section 5337 PM	2015	20.525	<u>1,685,012</u>

**Transportation District Commission of Hampton Roads
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Year	Federal Catalogue Number	Total Expenditures
Federal Transit Administration Bus and Bus Facilities Formula Program				
VA 34-0004	FY13/14 Section 5339 for Vehicles	2015	20.526	475,005
VA 34-0001	FY14 5339 PM	2013	20.526	304,315
				<u>779,320</u>
Subtotal - Federal Transit Cluster				<u>28,940,128</u>
Federal Transit Administration Job Access and Reverse Commute Program				
VA 37-X014	JARC Grant	2007	20.516	160,026
VA 37-X022	JARC Grant	2012	20.516	383,472
				<u>543,498</u>
Federal Transit Administration New Freedom Program				
VA 57-X001	New Freedom Grant	2007	20.521	378,083
VA 57-X004	New Freedom Grant	2013	20.521	386,871
				<u>764,954</u>
Subtotal - Transit Services Programs Cluster				<u>1,308,452</u>
Federal Transit Administration New Freedom Program				
VA 70-0001	Ferryboat FHWA Flex	2014	20.205	117,600
Subtotal - Highway Planning and Construction Cluster				<u>117,600</u>
Total Department of Transportation				<u>30,366,180</u>
Passed through from Department of Rail and Public Transportation				
47012-54 Regional TDM program Traffic		2014	20.507	547,567
47014-13 Regional TDM program Traffic		2015	20.507	19,759
Total Department of Rail and Public Transportation				<u>567,326</u>
Total				<u>\$ 30,933,506</u>

Notes to Schedule of Expenditures of Federal Awards

1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the *Transportation District Commission of Hampton Roads*.

2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual method of accounting.

Schedule of Findings and Questioned Costs

1. Summary of Auditors' Results

Financial Statements

- a. An unmodified opinion was issued on the consolidated financial statements.
- b. There were no material weaknesses identified.
- c. There were no significant deficiencies identified.
- d. The audit did not disclose any noncompliance material to the consolidated financial statements.

Federal Awards

- a. There were no material weaknesses identified.
- b. There were no significant deficiencies identified.
- c. An unmodified opinion was issued on compliance for major programs.
- d. The audit did not disclose any audit findings required to be reported.
- e. Major programs are:
 - i. Federal Transit Cluster (20.500, 20.507, 20.525 and 20.526)
- f. The dollar threshold used to distinguish between Type A and Type B programs is \$928,005.
- g. The Commission qualified as a low-risk auditee.

**Transportation District Commission of Hampton Roads
 Schedule of Prior Year Audit Findings and Corrective Action Plan
 Year Ended June 30, 2015**

Comment Description and Number	Corrected Yes/No	In-Process of Correcting	Yes/No	Amount of Questioned Cost	Description of Action Taken by Commission
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There were no prior year audit findings.

Southside Administration/Maintenance Building
509 East 18th Street, Norfolk, VA 23504

Northside Administration/Maintenance Building
3400 Victoria Boulevard, Hampton, VA 23661

Norfolk Tide Facility
1850 East Brambleton Avenue, Norfolk, VA 23504