

Annual Financial Statements

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
HAMPTON, VIRGINIA



TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

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JUNE 30, 2018

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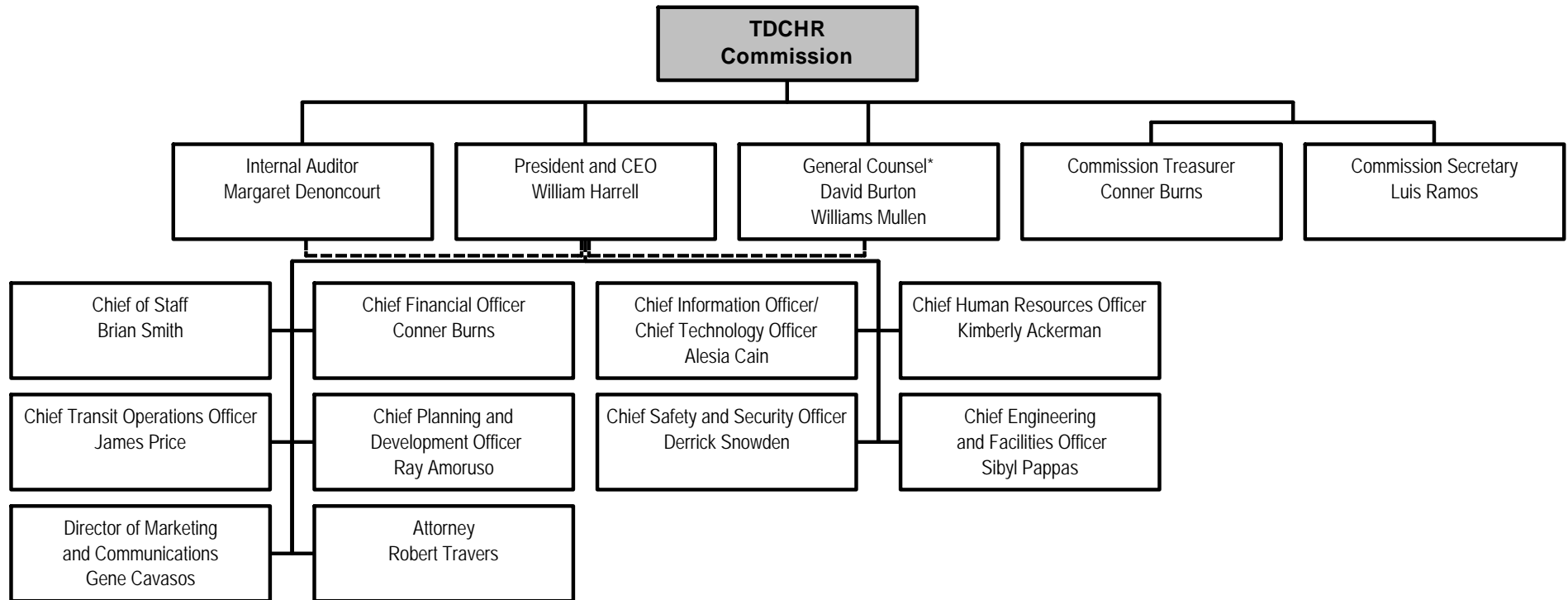
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INTRODUCTORY SECTION

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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ORGANIZATIONAL CHART
 JUNE 30, 2018



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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
MEMBERS OF THE COMMISSION
JUNE 30, 2018

CHAIRMAN

Patricia P. Woodbury
City of Newport News

VICE-CHAIRMAN

Douglas W. Fuller
City of Chesapeake

COMMISSIONERS

Robert Coleman
City of Newport News

Gaylene Kanoyton
City of Hampton

Charles B. Hunter
City of Portsmouth

Andria McClellan
City of Norfolk

Jennifer Mitchell
Virginia Department of Rail and Public Transportation

William J. Moffett
City of Hampton

Keith Parnell
City of Norfolk

Amelia Ross-Hammond
City of Virginia Beach

John L. Rowe
City of Portsmouth

Richard W. West
City of Chesapeake

James L. Wood
City of Virginia Beach

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
EXECUTIVE LEADERSHIP TEAM AND FINANCE STAFF
JUNE 30, 2018

EXECUTIVE LEADERSHIP TEAM

President and Chief Executive Officer	William E. Harrell
Chief Financial Officer	Conner Burns
Chief Human Resources Officer	Kimberly Ackerman
Chief Planning and Development Officer	Raymond Amoruso
Chief Information Officer/Chief Technology Officer	Alesia Cain
Chief Safety and Security Officer	Derrick Snowden
Chief Environmental and Facilities Officer	Sibyl Pappas
Chief Transit Operations Officer	James E. Price, Jr.

FINANCE STAFF

Director of Finance	Sylvia L. Shanahan
Assistant Director of Finance	Debbie L. Ball
Director of Budget and Finance	Angela Glass
Director of Procurement	Sonya Luther
Manager of Revenue Services	Sheri Dixon

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FINANCIAL SECTION

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Report of Independent Auditor

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation District Commission of Hampton Roads (the "Commission"), as of and for the year ended June 30, 2018, and the related notes to financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 18 to the financial statements, the Commission adopted new accounting guidance, Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Introductory Section, Other Supplementary Information, and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The Other Supplementary Information and the Schedule of Expenditures of Federal Awards presented as of and for the year ended June 30, 2018 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Commission as of and for the year ended June 30, 2017 (not presented herein), and have issued our report thereon dated February 6, 2018, which contained an unmodified opinion on those financial statements. The 2017 comparative totals included in the Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from or relates directly to the underlying accounting and other records used to prepare the 2017 financial statements. The Other Supplementary Information containing 2017 comparative totals has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2017.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, on our consideration of the Commission's 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 solely 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 effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Cherry Bekant LLP

Virginia Beach, Virginia
January 28, 2019

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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 financial statements as of and for the year ended June 30, 2018. Following this MD&A are the basic financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the basic financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's basic financial statements, which follow this narrative.

Financial Operations Highlights

Below are highlights of the Commission's activities for fiscal year 2018.

- The Commission spent \$9.7 million on asset additions during FY18. The majority of the increase was \$4.6 million on facility renovations and \$1.5 million for a new ferryboat.
- The Commission's net position decreased by \$15.1 million in FY18 to \$271.5 million. This decrease is mainly due to depreciation expense.
- At the end of the fiscal year, unrestricted net deficit was (\$6.7) million, an increase of \$3 million. The restricted net position consists of reserves for self-insurance, debt service restrictions, and reserves for construction.
- During FY18 the Commission had a \$4.5 million increase in the proceeds from capital grants. This increase was largely due to funds utilized for bus purchase, ferryboat and facility renovations.

Overview of the Financial Statements

The Commission's basic financial statements, the Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and Statement of Cash Flows, are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP") 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 and construction in process, are depreciated over their useful lives. Certain amounts are restricted for debt service, self-insurance, and, where applicable, for construction activities. See the notes to basic financial statements for a summary of the Commission's significant accounting policies.

**TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission’s financial position. The Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$271.5 million at June 30, 2018. A condensed summary of the Commission’s net position is shown below:

	Year Ended June 30, 2018	*As Restated Year Ended June 30, 2017
Assets:		
Current assets	\$ 45,731,621	\$ 34,407,971
Capital assets, net	277,093,262	296,457,111
Other assets	2,352,200	156,474
Total Assets	<u>325,177,083</u>	<u>331,021,556</u>
Deferred Outflows of Resources	<u>5,669,024</u>	<u>9,606,166</u>
Liabilities:		
Current liabilities	39,436,371	36,857,252
Long-term liabilities	15,873,949	16,276,867
Total Liabilities	<u>55,310,320</u>	<u>53,134,119</u>
Deferred Inflows of Resources	<u>4,088,823</u>	<u>919,035</u>
Net Position:		
Net investment in capital assets	275,449,210	292,493,576
Restricted	2,715,150	3,697,854
Unrestricted	<u>(6,717,396)</u>	<u>(9,616,862)</u>
Total Net Position	<u>\$ 271,446,964</u>	<u>\$ 286,574,568</u>

*Restated for GASB75 implementation.

The largest portion of the Commission’s net position each period represents its net investment in capital assets (e.g., buses, 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**

Summary of Operations and Changes in Net Position

	Year Ended June 30, 2018	*As Restated Year Ended June 30, 2017
Operating revenues	\$ 18,786,826	\$ 19,027,226
Operating expenses	<u>125,585,295</u>	<u>129,846,411</u>
Operating loss before subsidies and grants	(106,798,469)	(110,819,185)
Subsidies and grants	<u>79,828,501</u>	<u>80,224,573</u>
Operating loss before other expenses	(26,969,968)	(30,594,612)
Other expenses, net	<u>(7,919,184)</u>	<u>(10,062,214)</u>
Loss before proceeds from capital grants	(34,889,152)	(40,656,826)
Proceeds from capital grants	19,761,548	15,272,596
Cumulative effect of change in accounting standard	-	<u>(1,558,000)</u>
Change in net position	\$ (15,127,604)	\$ (26,942,230)
Net position, beginning of year	<u>286,574,568</u>	<u>\$ 313,516,798</u>
Net position, end of year	<u>\$ 271,446,964</u>	<u>\$ 286,574,568</u>

Revenues

A summary of revenues is as follows:

	2018 Amount	Percent of Total	*As Restated 2017 Amount	Percent of Total
Operating:				
Passenger fares	\$ 15,619,873	82.2%	\$ 15,671,061	87.4%
Charges and contracts	2,215,994	11.7%	2,149,290	12.0%
Auxiliary	844,716	4.4%	1,124,275	6.3%
Nontransportation	<u>106,243</u>	<u>0.6%</u>	<u>82,600</u>	<u>0.5%</u>
Total Operating	<u>18,786,826</u>	<u>98.9%</u>	<u>19,027,226</u>	<u>106.2%</u>
Nonoperating:				
Gain (loss) on sale of capital assets	162,623	0.9%	(303,634)	-1.7%
Interest income	<u>49,675</u>	<u>0.3%</u>	<u>17,940</u>	<u>0.1%</u>
Total Nonoperating	<u>212,298</u>	<u>1.1%</u>	<u>(285,694)</u>	<u>-6.2%</u>
Total Revenues	<u>\$ 18,999,124</u>	<u>100.0%</u>	<u>\$ 18,741,532</u>	<u>100.0%</u>

*Restated for GASB75 implementation.

**TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Expenses

A summary of expenses is as follows:

	2018 Amount	Percent of Total	*As Restated 2017 Amount	Percent of Total
Operating:				
Labor	\$ 48,466,557	36.2%	\$ 48,420,295	35.5%
Fringe benefits	15,812,947	11.8%	15,916,751	11.1%
Depreciation and amortization	29,247,649	21.9%	30,433,974	22.3%
Materials and supplies	9,980,402	7.5%	11,101,816	8.1%
Purchase of transportation services	8,549,457	6.4%	8,321,926	6.1%
Contractual services	8,187,924	6.1%	8,252,631	6.0%
Insurance, net of ordinary recoveries	3,166,124	2.4%	4,220,619	3.1%
Utilities	1,205,506	0.9%	1,307,840	1.0%
Other	968,729	0.7%	1,870,559	1.4%
Total Operating	<u>125,585,295</u>	<u>93.9%</u>	<u>129,846,411</u>	<u>94.6%</u>
Nonoperating:				
Interest expense	256,016	0.2%	471,920	0.3%
Noncapitalized grant expenditures	7,875,466	5.9%	9,304,600	5.1%
Total Nonoperating	<u>8,131,482</u>	<u>6.1%</u>	<u>9,776,520</u>	<u>5.4%</u>
Total Expenses	<u>\$ 133,716,777</u>	<u>100.0%</u>	<u>\$ 139,622,931</u>	<u>100.0%</u>

*Restated for GASB75 implementation.

Capital Assets

During the year ended June 30, 2018, the Commission expended \$9.7 million on capital activities from grant and operating funds. This amount included \$4.6 million for facility renovations, \$1.5 million for a ferryboat, and \$80,000 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 the Commission’s capital assets can be found in Note 6 to the financial statements.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

At June 30, 2018, the Commission owed \$15,500,000 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 matured October 1, 2017. Interest was payable semiannually each April 1st and October 1st. Principal payments were due on October 1 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 matured October 1, 2017. Interest was payable semiannually each April 1st and October 1st. Principal payments were due on October 1 of each year.

At June 30, 2018, the Commission owed no balance on these bonds after \$2,030,000 of principal payments were paid in fiscal year 2018. More detailed information about Hampton Roads Transit's long-term liabilities is presented in Note 9 to the financial statements.

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.

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FINANCIAL STATEMENTS

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets:

Cash and cash equivalents	\$ 15,080,277
Due from governments	22,266,740
Accounts receivable	398,139
Inventories	6,565,123
Prepaid expenses	1,421,342
Total Current Assets	<u>45,731,621</u>

Noncurrent Assets:

Capital assets, net	277,093,262
Intangible assets, net	55,645
Net pension asset	2,296,555
Total Noncurrent Assets	<u>279,445,462</u>
Total Assets	<u>325,177,083</u>

Deferred Outflows of Resources:

Deferred outflows of resources - pension	5,548,309
Deferred outflows of resources - OPEB group life insurance	89,584
Deferred outflows of resources - OPEB disability plan	31,131
Total Deferred Outflows of Resources	<u>5,669,024</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 330,846,107</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities:

Notes payable - bank	\$ 15,500,000
Current portion of long-term capital lease	395,210
Accounts payable	8,975,556
Accrued expenses	4,301,762
Self-insurance liability	3,715,150
Advanced capital contributions	6,548,693
Total Current Liabilities	<u>39,436,371</u>

Other Liabilities:

Long-term capital lease	1,304,487
Unearned revenues	5,090,281
Net pension liability	8,046,181
Net OPEB liability - group life insurance	1,421,000
Net OPEB liability - disability program	12,000
Total Other Liabilities	<u>15,873,949</u>
Total Liabilities	<u>55,310,320</u>

Deferred Inflows of Resources:

Deferred inflows of resources - pension	3,928,823
Deferred inflows of resources - OPEB group life insurance	158,000
Deferred inflows of resources - OPEB disability plan	2,000
Total Deferred Inflows of Resources	<u>4,088,823</u>
Total Liabilities and Deferred Inflows of Resources	<u>59,399,143</u>

Net Position:

Net investment in capital assets	275,449,210
Restricted	2,715,150
Unrestricted	(6,717,396)
Total Net Position	<u>271,446,964</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 330,846,107</u>

See accompanying notes to financial statements.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

Operating Revenues:	
Passenger fares	\$ 15,619,873
Charters and contracts	2,215,994
Auxiliary	844,716
Nontransportation	<u>106,243</u>
Total Operating Revenues	<u>18,786,826</u>
Operating Expenses:	
Labor	48,466,557
Fringe benefits	15,812,947
Depreciation and amortization	29,247,649
Materials and supplies	9,980,402
Purchase of transportation services	8,549,457
Contractual services	8,187,924
Insurance, net of ordinary recoveries	3,166,124
Utilities	1,205,506
Other	<u>968,729</u>
Total Operating Expenses	<u>125,585,295</u>
Operating loss before subsidies and grants	(106,798,469)
Subsidies and grants	<u>79,828,501</u>
Operating loss before other income (expenses)	<u>(26,969,968)</u>
Other Income (Expenses):	
Interest income	49,675
Interest expense	(256,016)
Gain on sale of capital assets	162,623
Noncapitalized grant expenditures	<u>(7,875,466)</u>
Total Other Expenses, net	<u>(7,919,184)</u>
Loss before proceeds from capital grants	(34,889,152)
Proceeds from capital grants	<u>19,761,548</u>
Change in net position	(15,127,604)
Net position, beginning of year, as restated (note 18)	<u>286,574,568</u>
Net position, end of year	<u><u>\$ 271,446,964</u></u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:

Receipts from customers and users	\$ 18,810,573
Payments to suppliers for goods and services	(27,222,383)
Payments to employees	(64,511,152)
Net cash used in operating activities	<u>(72,922,962)</u>

Cash flows from noncapital financing activities:

Operating subsidies and grants received	84,918,782
Net decrease in note payable - bank	(1,500,000)
Net cash provided by noncapital financing activities	<u>83,418,782</u>

Cash flows from capital and related financing activities:

Increase in advanced capital contributions	1,374,804
Interest expense	(256,016)
Acquisition of capital assets and intangible assets	(9,790,971)
Noncapitalized grant expenditures	(7,875,466)
Proceeds from disposition of capital assets	162,623
Proceeds from capital grants	16,131,271
Payments on long-term capital lease	(382,312)
Payments on long-term debt	(2,030,000)
Net cash used in capital and related financing activities	<u>(2,666,067)</u>

Cash flows from investing activities:

Interest income	<u>49,675</u>
-----------------	---------------

Net change in cash and cash equivalents	7,879,428
Cash and cash equivalents, beginning of year	<u>7,200,849</u>
Cash and cash equivalents, end of year	<u>\$ 15,080,277</u>

Reconciliation of operating loss before subsidies and grants to net cash from operating activities:

Operating loss before subsidies and grants	\$ (106,798,469)
Adjustments to reconcile operating loss before subsidies and grants to net cash used in operating activities:	
Depreciation and amortization	29,247,649
Change in:	
Accounts receivable	23,747
Inventories	(398,790)
Prepaid expenses	561,098
Accounts payable	5,656,155
Accrued expenses	47,966
Net pension/OPEB liability	(279,614)
Self-insurance liability	(982,704)
Net cash used in operating activities	<u>\$ (72,922,962)</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and nature of business

The Transportation District Commission of Hampton Roads (the “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 management.

Note 2—Summary of significant accounting policies

Reporting Entity – Transit Management Company (“Subsidiary”) is a wholly owned subsidiary of the Commission. The Subsidiary is considered a component unit of the Commission for reporting purposes. 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 financial statements. All intercompany accounts and transactions have been eliminated.

Basis of Accounting and Financial Statement Presentation – The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

Investments – Investments are stated at fair value, with the exception of investments in the Virginia Local Government Investment Pool (“LGIP”), an external 2a7-like investment pool which is presented at share price. All fair market valuations are based on quoted market prices. LGIP shares are based on amortized cost of the LGIP’s underlying portfolio.

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 consumption 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 Hampton Roads Transit (“HRT”) as an asset with initial individual cost of \$5,000 or more with a useful life greater than one year. Donated assets are valued at their estimated acquisition value on the date donated. 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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Summary of significant accounting policies (continued)

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

	<u>Years</u>
Buildings and improvements	10-50
Light rail vehicles and infrastructure	10-30
Ferries and docks	10-20
Buses	7-12
Equipment and other	3-13
Vehicles	3-4
Intangibles	3-5

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until that time. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as revenue until that time.

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.

Group Life Insurance – VRS Group Life Insurance ("GLI") Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI Program OPEB, and GLI Program OPEB expense, information about the fiduciary net position of the VRS GLI program OPEB and the additions to/deductions from the VRS GLI Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Disability Program –The Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program ("VLDP") is a multiple-employer, cost-sharing plan. For purposes of measuring the net Political Subdivision Employee VLDP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB, and the Political Subdivision Employee VLDP OPEB expense, information about the fiduciary net position of the VRS Political Subdivision Employee VLDP; and the additions to/deductions from the VRS Political Subdivision Employee VLDP's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments 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 THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Summary of significant accounting policies (continued)

Revenues – Revenues are 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.

Net Position – Net position represents the residual interest in the Commission's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets; restricted for self-insurance; and unrestricted. Net investment 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 fiscal year ending June 30th. 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 financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and deferred inflows and outflows of resources, and disclosure of contingent assets and liabilities for the reported period. Actual results could differ from those estimates and assumptions.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 3—Cash and cash equivalents and investments

Cash and cash equivalents

Deposits – At June 30, 2018, the carrying value of the Commission's deposits with banks was \$9,930,177, and the bank balances were \$14,860,308. 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, 2018, the Commission had \$2,822,263 invested in money market funds valued at fair value. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

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 (the "Commonwealth") 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 LGIP. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The LGIP values portfolio securities by the amortized cost method and on a monthly basis this valuation is compared to current market to monitor any variance. The LGIP is in compliance with the requirements of generally accepted accounting principles in the United States of America ("GAAP") and elects to measure its investments at amortized cost for financial reporting. Therefore, participants in LGIP should also measure their investments in the LGIP at amortized cost for financial reporting. 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 the Commonwealth's 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, 2018, 100% of the Commission's cash equivalents were invested in money market funds and the LGIP.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 3—Cash and cash equivalents and investments (continued)

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.

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 Federal Savings and Loan Insurance Corporation (“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 transactions with this entity

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 of the Commission’s cash and cash equivalents were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Other money market funds	<u>\$ 2,822,263</u>

Fair Value – The Commission categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy base on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission’s investments in other money market funds are considered to be Level 1.

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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 4—Due from governments

Government receivables (payable) consisted of the following at June 30, 2018:

Federal Transit Administration	\$ 17,647,139
Commonwealth of Virginia	4,952,768
Local governments	<u>(333,167)</u>
	<u>\$ 22,266,740</u>

Note 5—Inventories

Inventories consisted of the following at June 30, 2018:

Bus and service vehicle parts	\$ 3,982,284
Light rail parts	2,375,971
Fuel and oil	<u>206,868</u>
	<u>\$ 6,565,123</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 6—Capital and intangible assets

A summary of changes in capital assets is as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets not being depreciated:				
Land	\$ 8,900,798	\$ -	\$ -	\$ 8,900,798
Construction in process:				
Buildings and improvements	5,778,920	2,530,900	5,033,716	3,276,104
Other	2,058,415	7,207,166	1,793,557	7,472,024
Total capital assets not being depreciated	<u>16,738,133</u>	<u>9,738,066</u>	<u>6,827,273</u>	<u>19,648,926</u>
Capital assets being depreciated:				
Buses	117,221,819	447,086	6,611,671	111,057,234
Buildings and improvements	85,508,650	4,573,145	-	90,081,795
Equipment	25,429,997	29,900	295,419	25,164,478
Ferries and docks	7,501,631	1,497,142	6,001	8,992,772
Other	9,114,679	395,324	68,142	9,441,861
Vehicles	8,203,413	-	627,484	7,575,929
Intangibles	4,557,792	-	60,128	4,497,664
Light rail	256,096,446	-	-	256,096,446
Total capital assets being depreciated	<u>513,634,427</u>	<u>6,942,597</u>	<u>7,668,845</u>	<u>512,908,179</u>
Less accumulated depreciation and amortization for:				
Buses	77,151,727	7,862,871	6,611,399	78,403,199
Buildings and improvements	32,446,839	3,956,467	-	36,403,306
Equipment	22,934,524	733,617	295,198	23,372,943
Ferries and docks	4,567,715	396,562	4,203	4,960,074
Other	6,208,543	702,076	68,141	6,842,478
Vehicles	7,458,317	700,905	627,485	7,531,737
Intangibles	4,409,317	32,702	-	4,442,019
Light rail	78,589,993	14,862,449	-	93,452,442
Total accumulated depreciation and amortization	<u>233,766,975</u>	<u>29,247,649</u>	<u>7,606,426</u>	<u>255,408,198</u>
Total capital assets being depreciated - net	<u>279,867,452</u>	<u>(22,305,052)</u>	<u>62,419</u>	<u>257,499,981</u>
Total capital assets - net	<u>\$296,605,585</u>	<u>\$ (12,566,986)</u>	<u>\$ 6,889,692</u>	<u>\$277,148,907</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 7—Unearned reimbursements - net

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

City of Chesapeake	\$ 16,810
City of Hampton	(65,865)
City of Newport News	(73,509)
City of Norfolk	219,277
City of Portsmouth	87,166
City of Virginia Beach	278,979
	<u>\$ 462,858</u>

The amounts owed by (due to) participating municipalities are included in due from governments in the Statement of Net Position.

Note 8—Notes payable - bank

The Commission has a revolving line of credit of \$17,000,000, which matures January 31, 2019. Advances on the line 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 a fluctuating rate per annum equal to sixty-five (65%) of the London Interbank Offered Rate (LIBOR) plus one hundred sixty-five (165) basis points with a floor of 2%. At June 30, 2018, the Commission owed \$15,500,000 against the line of credit.

Note 9—Long-term debt

Following is a summary of debt transactions of the Commission:

	2017	Additions	Reductions	2018	Due Within One Year
Note payable	\$17,000,000	\$ -	\$ 1,500,000	\$ 15,500,000	\$ 1,500,000
Self-insurance	4,697,854	809,239	1,791,943	3,715,150	3,715,150
Compensated absences	1,328,072	728,264	782,906	1,273,430	1,273,430
Revenue bonds	2,030,000	-	2,030,000	-	-
Capital lease	2,082,009	-	382,312	1,699,697	395,210
Net OPEB liability	1,666,000	34,000	267,000	1,433,000	-
Net pension liability	13,011,170	3,278,146	10,539,690	5,749,626	-
	<u>\$41,815,105</u>	<u>\$ 4,849,649</u>	<u>\$17,293,851</u>	<u>\$ 29,370,903</u>	<u>\$ 6,883,790</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 was payable semi-annually each April 1st and October 1st. Annual principal payments of varying amounts began October 1, 2007, through the termination date of October 1, 2017, at which time it was paid off. Proceeds from the debt were used to establish a fund for the acquisition of buses and related equipment during fiscal year 2007.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 9—Long-term debt (continued)

On June 1, 2007, the Commission entered into a second financing arrangement with the VRA providing \$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 was payable semi-annually each April 1st and October 1st. Annual principal payments of varying amounts began 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.

During the term of financing, title to the buses will remain with the Commission. To secure its obligations, VRA created a security interest in all 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.

Note 10—Lease transactions

Operating Leases – In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2020. For 2018, lease expense was \$96,494. Future minimum lease payments under this lease are approximately \$97,500 and \$100,000 for 2019 and 2020, respectively.

Capital Leases – In 2015, the Commission entered into a capital lease to purchase seven 40-foot buses to add to their fleet. The buses were capitalized at a cost of \$3,127,291. Depreciation expense of \$260,575 on the assets under lease is included in depreciation expense on the Statement of Revenue, Expenses, and Changes in Net Position and resulted in accumulated depreciation of \$1,042,300.

Future minimum lease payments under this lease are as follows:

<u>Fiscal Years Ending June 30:</u>	
2019	\$ 445,704
2020	445,704
2021	445,704
2022	445,704
2023	37,142
Total future minimum lease payments	<u>1,819,958</u>
Less amounts representing interest	<u>(120,261)</u>
Total principal due under capital lease obligation	1,699,697
Less current portion	<u>(395,210)</u>
Long-term portion of capital lease obligation	<u>\$ 1,304,487</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 11—Subsidies and grants

Subsidies and grants for operating purposes were as follows:

Federal	\$ 16,520,546
State	19,505,598
Local	<u>43,802,357</u>
	<u>\$ 79,828,501</u>

Note 12—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, 2018, contributions received from local governments exceeded amounts expended by \$6,548,693.

Note 13—Defined benefit pension plan

HRT participates in an agent, multiple employer defined benefit pension plan administered by the Virginia Retirement System (“VRS” or “System”). HRT also administers a single employer defined pension plan for its collectively bargained employees.

Virginia Retirement Plan

Plan Description – All full-time, salaried permanent employees of the Commission are automatically covered by the VRS Retirement Plan (“Plan”) upon employment. This Plan is administered by the Virginia Retirement 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 pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table on the following pages.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

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.</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.</p>	<p>About Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</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. • 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, and they have not taken a refund.</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>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>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 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<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>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>*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>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.</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>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<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>
		<p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<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 Defined Benefit Component: 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>Defined Contributions Component: 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> <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>
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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<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 Defined Benefit Component: See definition under Plan 1.</p> <p>Defined Contribution Component: 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>
<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%.</p> <p>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.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: 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 60 with at least five years (60 months) of creditable service. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</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. Defined Contribution Component: Not applicable.</p>
<p>Eligibility: 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>Eligibility: Same as Plan 1.</p>	<p>Eligibility: Same as Plan 1 and Plan 2.</p>
<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>		

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<p>Exceptions to COLA Effective Dates: 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>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>
<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>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>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the 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>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

<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. 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 Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p>Defined Contribution Component: Not applicable.</p>
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Employees Covered by Benefit Terms – As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Members</u>
Inactive members or their beneficiaries currently receiving benefits	<u>92</u>
Inactive Members:	
Vested	44
Nonvested	131
Active elsewhere in VRS	<u>48</u>
Total Inactive Members	<u>223</u>
Active members	<u>292</u>
Total	<u><u>607</u></u>

Contributions – The contribution 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.

For the year ended June 30, 2018, the Commission’s contractually required contribution rate was 5.99% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

Contributions to the pension plan from the Commission were \$943,032 for the year ended June 30, 2018.

Net Pension Liability – The Commission’s net pension liability was measured as of June 30, 2017. The Total Pension Liability (“TPL”) used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions – The TPL for General Employees in the Commission’s Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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*

* 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 GAAP 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.

Largest 10 - Non-Hazardous Duty:

Mortality rates: 20% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality rates: 15% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate – The discount rate used to measure the TPL 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, 2019, 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, 2019 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 TPL.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 35,789,182	\$ 34,965,484	\$ 823,698
Changes for the year:			
Service cost	1,722,982	-	1,722,982
Interest	2,458,439	-	2,458,439
Changes of assumptions	(608,159)	-	(608,159)
Difference between expected and actual	(489,591)	-	(489,591)
Contributions - employer	-	979,749	(979,749)
Contributions - employee	-	919,527	(919,527)
Net investment income	-	4,332,554	(4,332,554)
Benefit payments, including refunds of employee contributions	(1,337,254)	(1,337,254)	-
Administrative expense	-	(24,013)	24,013
Other	-	(3,893)	3,893
Net changes	<u>1,746,417</u>	<u>4,866,670</u>	<u>(3,120,253)</u>
Balances at June 30, 2017	<u>\$ 37,535,599</u>	<u>\$ 39,832,154</u>	<u>\$ (2,296,555)</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net position liability (asset) 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%
June 30, 2017 Plan's net pension liability (asset)	\$ 2,747,420	\$ (2,296,555)	\$ (6,483,757)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018, the Commission recognized pension expense of \$52,677. At June 30, 2018, 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	\$ 943,032	
Differences between expected and actual experience	-	571,388
Changes of assumptions	-	447,270
Net difference between projected and actual earnings on plan investments	-	610,300
	<u>\$ 943,032</u>	<u>\$ 1,628,958</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

\$943,032 reported as deferred outflows of resources related to pensions resulting from the commissions contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year end June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions as of June 30, 2018 will be recognized in pension expense as follows:

2019	\$ (770,844)
2020	(230,561)
2021	(254,297)
2022	(373,256)
2023	-
	<u>\$ (1,628,958)</u>

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, 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, Virginia, 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, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Members</u>
Inactive members or their beneficiaries currently receiving benefits	302
Inactive members entitled to but not yet receiving benefits	102
Active members	<u>618</u>
Total	<u>1,022</u>

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 THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

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 ended June 30, 2018, the actuarially determined total rate was 10.50% of annual pay.

Discount Rate – The discount rate used to measure the TPL was 7.00% as of December 31, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are included. Projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position (“FNP”) was projected to be available to make all projected future benefit payments for 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 TPL as of December 31, 2017.

Net Pension Liability – The Commission’s net pension liability was measured as of December 31, 2017. The TPL used to calculate the net pension liability was determined by an actuarial valuation performed as of January 1, 2018, using updated actuarial assumptions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the Net Pension Liability (“NPL”) of the Plan as of December 31, 2017 using the discount rate of 7.00%, as well as what the Plan’s NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease	Current Discount	1% Increase
	6.00%	Rate 7.00%	8.00%
December 31, 2017 Plan's NPL	\$ 16,395,243	\$ 8,046,181	\$ 1,000,470

Actuarial Assumptions – The TPL was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Aggregate payroll increases	3.50%
Individual salary increases	7.75% for the first five years after date of hire, 3.75% thereafter
Investment rate of return	7.00%, net of pension plan investment expense

Pre-retirement mortality rates were based on the RP-2014 Blue Collar Employee Mortality Table, set forward two years and projected generationally using Scale MP2016 from 2014. Mortality rates for nondisabled pensioners were based on the RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years and projected generationally using Scale MP2016 from 2014. Mortality rates for disabled pensioners were based on RP-2014 Disabled Retiree Mortality Table, set forward two years and projected generationally using Scale MP2016.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

The underlying tables with generational projection to the ages of the participants as of the measurement date reasonably reflect the mortality experience of the Plan as of the measurement date. These mortality tables were then adjusted to future years using the generational projection to anticipate mortality improvement between the measurement date and those years.

The mortality rates were based on historical and current demographic data, estimated future experience, and professional judgment. As part of the analysis, a comparison was made between the actual number of deaths and the projected number of deaths based on the prior years' assumption over the most recent five years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Pension Plan Administration Committee) and projected arithmetic real rates of return for each major asset class provided by Segal Marco Advisors, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Real Rate of Return
Domestic equity	35.00%	6.30%
International developed markets equity	8.00%	7.30%
Emerging markets equity	2.00%	9.60%
Core fixed income	30.00%	1.80%
Emerging market debt	5.00%	4.50%
Global fixed income	5.00%	1.70%
Alternative investments	10.00%	5.00%
Real estate	5.00%	5.00%
	100%	

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

Changes in Net Pension Liability

<u>Asset Class</u>	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Long-Term Net Position Liability (a) - (b)</u>
Balances at December 31, 2017	\$ 72,048,214	\$ 59,860,743	\$ 12,187,471
Changes for the year:			
Service cost	2,096,672	-	2,096,672
Interest	5,047,386	-	5,047,386
Contributions - employer	-	2,333,012	(2,333,012)
Contributions - employee	-	877,097	(877,097)
Net investment income	-	8,188,123	(8,188,123)
Benefit payments, net of refunds	(4,078,731)	(4,078,731)	-
Administrative expense	-	(112,884)	112,884
Net changes	<u>3,065,327</u>	<u>7,206,617</u>	<u>(4,141,290)</u>
Balances at December 31, 2017	<u>\$ 75,113,541</u>	<u>\$ 67,067,360</u>	<u>\$ 8,046,181</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –
 For the year ended June 30, 2018, the Commission recognized pension expense of \$2,774,444. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 415,674	\$ 308,505
Employer contributions made subsequent to measurement date	2,131,684	-
Change in assumptions	2,057,919	-
Net difference between projected and actual earnings on plan investments	-	1,991,360
	<u>\$ 4,605,277</u>	<u>\$ 2,299,865</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 13—Defined benefit pension plan (continued)

\$2,131,684 reported as deferred outflows of resources related to pensions resulting from the Commissions contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018 will be recognized in pension expense as follows:

2019	\$	550,497
2020		922,606
2021		(534,759)
2022		(764,616)
	\$	<u>173,728</u>

Note 14—Other postemployment benefit programs

Group Life Insurance

Plan Description – All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This plan is administered by VRS, along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the Optional Group Life Insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

The specific information for GLI Program OPEB, including eligibility, coverage and benefits is set out in the table below:

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the GLI Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

Reduction in Benefit Amounts

The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the GLI Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

Contributions - The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the GLI Program from the Commission was \$89,584 for the year ended June 30, 2018.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB - At June 30, 2018, the Commission reported a liability of \$1,421,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Commission's proportion was .09465%.

For the year ended June 30, 2018, the Commission recognized GLI OPEB expense of \$13,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 32,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	53,000
Change in assumptions	-	73,000
Employer contributions subsequent to the measurement date	89,584	-
Total	\$ 89,584	\$ 158,000

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

\$89,584 reported as deferred outflows of resources related to the GLI OPEB resulting from the Commission’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows for years ended:

FY 2019	\$	(33,000)
FY 2020		(33,000)
FY 2021		(33,000)
FY 2022		(33,000)
FY 2023		(19,000)
Thereafter		(7,000)
	\$	<u>(158,000)</u>

Disability program

Plan Description – All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee VLDP. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VLDP PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Political Subdivision Employee VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none"> • Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

<p>Benefit Amounts The Political Subdivision Employee VLDP provides the following benefits for eligible employees:</p> <p><u>Short-Term Disability –</u></p> <ul style="list-style-type: none">• The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.• During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related of work-related disability.• Once the eligibility period is satisfied, employees are eligible for higher income replacement levels <p><u>Long-Term Disability –</u></p> <ul style="list-style-type: none">• The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.• Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.
<p>VLDP Notes:</p> <ul style="list-style-type: none">• Members approved for short-term or long-term disability at age 60 or older will be eligible for benefit, provided they remain medically eligible.• VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions - The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Commission to the VLDP were \$31,131 for the years ended June 30, 2018.

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB - At June 30, 2018, the Commission reported a liability \$12,000, respectively, for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Commission's proportion of the Net VLDP OPEB Liability was based on the Commission's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Commission's proportion of the VRS Political Subdivision Employee VLDP was 2.21134%.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

For the year ended June 30, 2018, the Commission recognized VRS Political Subdivision Employee VLDP OPEB expense of \$21,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee VLDP OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ -	\$ 2,000
Employer contributions subsequent to the measurement date	31,131	-
Total	<u>\$ 31,131</u>	<u>\$ 2,000</u>

\$31,131 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to the VLDP OPEB will also be recognized in the VLDP OPEB expense in the 2019 reporting period.

Actuarial Assumptions for Other Postemployment Benefits:

The total OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation 2.5%

Salary increases, including inflation –

Locality – General employees 3.5% – 5.35%

Investment rate of return 7.0%, net of investment expenses, including inflation*

*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 GAAP 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 the OPEB liabilities.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

Net OPEB Liability - The net OPEB liability (NOL) represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2017, NOL amounts were as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%
	Virginia Local Disability OPEB Program
Total VLDP OPEB Liability	\$ 914
Plan Fiduciary Net Position	351
Employers' Net VLDP OPEB Liability	<u>\$ 563</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	38.40%

The total OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GAAP in the System's notes to financial statements and required supplementary information.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

Long-Term Expected Rate of Return -The long-term expected rate of return on the System’s investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s 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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00 %	0.69 %	0.10 %
Credit Strategies	15.00 %	3.69 %	0.59 %
Real Assets	15.00 %	5.76 %	0.86 %
Private Equity	15.00 %	9.53 %	1.43 %
	<u>100.00 %</u>		<u>4.80 %</u>
	Inflation		<u>2.50 %</u>
	Expected arithmetic nominal return		<u>7.30 %</u>

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate – The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 forward, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 14—Other postemployment benefit programs (continued)

Sensitivity of the Political Subdivision’s Proportionate Share Net OPEB Liability to Changes in the Discount Rate – The following presents the Commission’s proportionate share of the OPEB liability using the discount rate of 7.00%, as well as what the Commission’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

Group Life Insurance:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer’s proportionate share of the GLI Program Net OPEB Liability	\$ 1,838,000	\$ 1,421,000	\$ 1,083,000

VRS Political Subdivision VLDP:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer’s proportionate share of the VLDP OPEB Liability	\$ 14,000	\$ 12,000	\$ 11,000

Fiduciary Net Positions – Detailed information about the various VRS pension and OPEB programs’ Fiduciary Net Positions are available in the separately issued VRS 2017 CAFR. A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Hampton Roads Transit Group Life Insurance HRT

Plan Description – Employees within the group “grandfathered retired Northside employees” are covered by a term life insurance plan administered by Minnesota Life Insurance and Ochs, Inc. (“Minnesota Life”). The basic life insurance amount is the amount in force on the date of employment. Benefit payments are made directly from Minnesota Life. The Commission paid Minnesota Life \$329 for this benefit for year ended June 30, 2018.

Note 15—Unearned revenues

Federal funds originally designated for the extension of light rail to the City of Virginia Beach is currently being held for the purchase of buses.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 16—Compensated absences

All full-time administrative 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>
0 - 5 years	10 days
6 - 10 years	15 days
11 or more years	20 days

All nonunion employees may accumulate and roll-over annual leave from year to year with no limits, and up to a maximum of 320 hours may 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, 2018, the Commission has accrued \$1,273,430, for compensated absences. Compensated absences are included in accrued expenses on the Statement of Net Position.

Note 17—Contingencies

General Liability 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 financial condition.

Workers' Compensation Self-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.

Following is a summary of changes in self-insurance claims payable for the fiscal year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Claims and Reserves</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2018	\$ 4,697,854	\$ 809,239	\$ 1,791,943	\$ 3,715,150
2017	4,373,999	1,768,464	1,444,609	4,697,854

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 Uniform Guidance, 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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 18—Retrospective Application of a Change in Accounting Principle and Restatement of Prior Period Net Position

For fiscal year 2018, the Commission has adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. As a result, the beginning net position was restated as follows:

	(As Previously Reported) June 30, 2017	Effects of GASB 75	(As Adjusted) June 30, 2017
Total assets	\$ 331,013,556	\$ -	\$ 331,013,556
Total deferred outflows	9,606,166	108,000	9,714,166
Total liabilities	51,568,119	1,666,000	53,234,119
Total deferred inflows	919,035	-	919,035
Net position			
Net investment in capital assets	292,493,576	-	292,493,576
Restricted	3,697,854	-	3,697,854
Unrestricted	<u>(8,058,862)</u>	<u>(1,558,000)</u>	<u>(9,616,862)</u>
Total net position	<u>\$ 288,132,568</u>	<u>\$ (1,558,000)</u>	<u>\$ 286,574,568</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

YEARS ENDED JUNE 30,

Virginia Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:				
Service cost	\$ 1,722,982	\$ 1,666,613	\$ 1,645,945	\$ 1,670,516
Interest	2,458,439	2,292,254	2,132,186	1,965,831
Changes of assumptions	(608,159)	-	-	-
Differences between expected and actual experience	(489,591)	(273,907)	(264,067)	-
Benefit payments, including refunds of employee contributions	<u>(1,337,254)</u>	<u>(1,284,530)</u>	<u>(1,170,235)</u>	<u>(1,349,458)</u>
Net change in total pension liability	1,746,417	2,400,430	2,343,829	2,286,889
Total pension liability, beginning of year	<u>35,789,182</u>	<u>33,388,752</u>	<u>31,044,923</u>	<u>28,758,034</u>
Total pension liability, end of year	<u>37,535,599</u>	<u>35,789,182</u>	<u>33,388,752</u>	<u>31,044,923</u>
Plan fiduciary net position:				
Contributions - employer	979,749	977,368	934,294	922,759
Contributions - employee	919,527	881,024	789,916	772,006
Net investment income	4,332,554	617,701	1,483,386	4,318,470
Benefit payments, including refunds of employee contributions	(1,337,254)	(1,284,530)	(1,170,235)	(1,349,458)
Administrative expense	(24,013)	(20,514)	(19,456)	(22,726)
Other	<u>(3,893)</u>	<u>(256)</u>	<u>(316)</u>	<u>227</u>
Net change in plan fiduciary net position	4,866,670	1,170,793	2,017,589	4,641,278
Plan fiduciary net position, beginning of year	<u>34,965,484</u>	<u>33,794,691</u>	<u>31,777,102</u>	<u>27,135,824</u>
Plan fiduciary net position, end of year	<u>39,832,154</u>	<u>34,965,484</u>	<u>33,794,691</u>	<u>31,777,102</u>
Net pension liability (asset), end of year	<u>\$ (2,296,555)</u>	<u>\$ 823,698</u>	<u>\$ (405,939)</u>	<u>\$ (732,179)</u>
Plan fiduciary net position as a percentage of the total pension liability	106%	98%	101%	102%
Covered payroll	\$ 17,401,786	\$ 16,989,819	\$ 15,945,689	\$ 15,945,689
Net pension liability (asset) as a percentage of covered payroll	-13%	5%	-3%	-5%

*Information prior to 2015 is not readily available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

YEARS ENDED JUNE 30,

Retirement Plan of the Transportation District Commission of Hampton Roads

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:				
Service cost	\$ 2,096,672	\$ 1,942,521	\$ 1,937,014	\$ 1,992,694
Interest	5,047,386	4,716,744	4,465,478	1,881,747
Differences between expected and actual experience	-	682,990	(104,384)	1,256,437
Changes in assumptions	-	1,260,323	3,109,006	-
Benefit payments, including refunds of employee contributions	(4,078,731)	(3,681,036)	(3,574,555)	(3,488,251)
Net change in total pension liability	3,065,327	4,921,542	5,832,559	1,642,627
Total pension liability, beginning of year	72,048,214	67,126,672	61,294,113	59,651,486
Total pension liability, end of year	75,113,541	72,048,214	67,126,672	61,294,113
Plan fiduciary net position:				
Contributions - employer	2,333,012	2,184,142	2,019,707	1,862,410
Contributions - employee	877,097	894,542	803,688	899,747
Net investment income	8,188,123	4,817,005	(674,158)	4,588,910
Benefit payments, including refunds of employee contributions	(4,078,731)	(3,681,036)	(3,574,555)	(3,488,251)
Administrative expense	(112,884)	(128,321)	(146,392)	(127,927)
Other	-	(329,075)	-	40,000
Net change in plan fiduciary net position	7,206,617	3,757,257	(1,571,710)	3,774,889
Plan fiduciary net position, beginning of year	59,860,743	56,103,486	57,675,196	53,900,307
Plan fiduciary net position, end of year	67,067,360	59,860,743	56,103,486	57,675,196
Net pension liability, end of year	\$ 8,046,181	\$ 12,187,471	\$ 11,023,186	\$ 3,618,917
Plan fiduciary net position as a percentage of the total pension liability	89%	83%	84%	94%
Covered payroll	\$ 28,172,411	\$ 25,916,719	\$ 27,075,414	\$ 27,075,414
Net pension liability as a percentage of covered payroll	29%	47%	41%	13%

*Information prior to 2015 is not readily available

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30,

Virginia Retirement System

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 943,032	\$ 943,032	\$ -	\$ 17,227,619	5.47%
2017	\$ 974,399	\$ 974,399	\$ -	\$ 17,401,786	5.60%
2016	\$ 977,271	\$ 977,271	\$ -	\$ 16,989,819	5.75%
2015	\$ 1,029,823	\$ 1,029,823	\$ -	\$ 15,945,689	6.46%

*Information prior to 2015 is not readily available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30,

Retirement Plan of Transportation District Commission

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 2,131,684	\$ 2,131,684	\$ -	\$ 29,517,820	7.22%
2017	\$ 2,333,012	\$ 2,333,012	\$ -	\$ 28,172,411	8.28%
2016	\$ 2,078,056	\$ 2,078,056	\$ -	\$ 25,916,719	8.02%
2015	\$ 1,950,314	\$ 1,950,314	\$ -	\$ 27,075,414	7.20%

*Information prior to 2015 is not readily available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30,

Group Life Insurance Program

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 89,584	\$ 89,584	\$ -	\$ 17,227,619	0.52%
2017	\$ 90,599	\$ 90,599	\$ -	\$ 17,422,839	0.52%
2016	\$ 81,644	\$ 81,644	\$ -	\$ 17,009,149	0.48%
2015	\$ 76,653	\$ 76,653	\$ -	\$ 15,969,374	0.48%
2014	\$ 74,219	\$ 74,219	\$ -	\$ 15,462,239	0.48%
2013	\$ 75,274	\$ 75,274	\$ -	\$ 15,682,072	0.48%
2012	\$ 40,916	\$ 40,916	\$ -	\$ 14,612,726	0.28%
2011	\$ 33,175	\$ 33,175	\$ -	\$ 11,848,173	0.28%
2010	\$ 22,466	\$ 22,466	\$ -	\$ 8,320,702	0.27%
2009	\$ 23,818	\$ 23,818	\$ -	\$ 8,821,526	0.27%

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30,

Virginia Local Disability Program

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 31,131	\$ 31,131	\$ -	\$ 5,188,540	0.60%
2017	\$ 24,364	\$ 24,364	\$ -	\$ 4,060,662	0.60%
2016	\$ 19,233	\$ 19,233	\$ -	\$ 3,205,499	0.60%
2015	\$ 11,719	\$ 11,719	\$ -	\$ 1,953,239	0.60%
2014	\$ 1,355	\$ 1,355	\$ -	\$ 225,819	0.60%

*Information prior to 2014 is not readily available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY

YEARS ENDED JUNE 30,

Group Life Insurance Program

Date	Employer's Proportion of Net GLI OPEB Liability	Employer's Proportionate Share of Net GLI OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of Net GLI OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
2018	0.09446%	\$ 1,421,000	\$ 17,422,839	0.082%	48.86%
2017	0.09465%	\$ 1,656,000	\$ 17,009,149	0.095%	41.18%

*The schedule is intended to show information for 10 years. Information prior to 2017 is not readily available. Additional years will be included as they become available.

**Per GAAP, net OPEB liability is reported using the measurement date, which is one year prior to the reporting date.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY

YEARS ENDED JUNE 30,

Virginia Local Disability Program

Date	Employer's Proportion of Net VLDP OPEB Liability	Employer's Proportionate Share of Net VLDP OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of Net VLDP OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability
2018	2.21134%	\$ 12,000	\$ 4,060,662	0.0023%	38.40%
2017	2.59536%	\$ 10,000	\$ 3,205,499	0.0025%	0.00%

*The schedule is intended to show information for 10 years. Information prior to 2017 is not readily available. Additional years will be included as they become available.

**Per GAAP, net OPEB liability is reported using the measurement date, which is one year prior to the reporting date.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

Virginia Retirement Plan

Changes of Benefit Terms – There have been no actuarially significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED JUNE 30, 2018

Virginia Retirement Plan (continued)

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED JUNE 30, 2018

Retirement Plan of the Transportation District Commission of Hampton Roads

Valuation date	Actuarially determined contribution rates are calculated as of January 1 st 18 months prior to the beginning of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Open level dollar for remaining unfunded liability without benefit improvements
Remaining amortization period	30 years, with benefit improvements over 5 years closed
Asset valuation method	The market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a four-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 20% of the market value of assets.

Actuarial assumptions:

Investment rate of return	7.00%, net of pension plan investment expense, including inflation. 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.																
Aggregate payroll increases	3.50%																
Individual salary increases	7.75% for the first five years after date of hire, 3.75% thereafter																
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	<p>RP-2014 Blue Collar Employee Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for pre-retirement lives.</p> <p>RP-2014 Blue Collar Healthy Annuitant Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for nondisabled pensioner lives.</p> <p>RP-2014 Disabled Retiree Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for disabled pensioner lives.</p>																

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED JUNE 30, 2018

Group Life Insurance

Changes of Benefit Terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED JUNE 30, 2018

Virginia Local Disability Program

Changes of Benefit Terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

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OTHER SUPPLEMENTARY INFORMATION

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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ENTERPRISE FUND - TRANSIT ACTIVITY
SCHEDULE OF REVENUES - ACTUAL AND BUDGETED

YEAR ENDED JUNE 30, 2018

	<u>Actual</u>	<u>Budgeted</u>	<u>Actual Over (Under) Budget</u>
Revenues:			
Passenger fares	\$ 15,619,873	\$ 17,686,100	\$ (2,066,227)
Charters and contracts	2,215,994	2,236,100	(20,106)
Auxiliary	844,716	1,325,000	(480,284)
Nontransportation	106,243	60,000	46,243
Total Revenues	<u>18,786,826</u>	<u>21,307,200</u>	<u>(2,520,374)</u>
Subsidies and Grants:			
Municipal subsidies	43,802,357	44,256,600	(454,243)
State operating subsidies	19,505,598	20,036,200	(530,602)
Federal operating grants	16,520,546	16,347,000	173,546
Total Subsidies and Grants	<u>79,828,501</u>	<u>80,639,800</u>	<u>(811,299)</u>
Total Revenues, Subsidies, and Grants	<u>\$ 98,615,327</u>	<u>\$ 101,947,000</u>	<u>\$ (3,331,673)</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ENTERPRISE FUND - TRANSIT ACTIVITY
SCHEDULE OF EXPENSES - ACTUAL AND BUDGETED

YEAR ENDED JUNE 30, 2018

	<u>Actual</u>	<u>Budgeted</u>	<u>Actual Over (Under) Budget</u>
Transit Activity Expenses:			
Labor and fringe benefits	\$ 64,279,504	\$ 64,133,500	\$ 146,004
Materials and supplies	9,980,402	11,831,000	(1,850,598)
Insurance, net of ordinary recoveries	2,183,420	4,709,000	(2,525,580)
Purchase of transportation services	8,549,457	8,706,400	(156,943)
Contractual services	8,187,924	9,053,200	(865,276)
Utilities	1,205,506	1,195,300	10,206
Other	968,729	2,318,600	(1,349,871)
Total Transit Activity Expenses before Depreciation and Amortization	<u>\$ 95,354,942</u>	<u>\$ 101,947,000</u>	<u>\$ (6,592,058)</u>

Reconciliation to expenses shown in the consolidated Statement of Revenues, Expenses, and Changes in Net Position is as follows:

Total transit activity expenses before depreciation	\$ 95,354,942
Depreciation and amortization	29,247,649
Self-insurance net increase in net position	982,704
	<u>\$ 125,585,295</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF NET POSITION

JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	2018	As Restated 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	\$ 15,080,277	\$ 7,200,849
Due from governments	22,266,740	18,636,463
Accounts receivable	398,139	421,886
Inventories	6,565,123	6,166,333
Prepaid expenses	1,421,342	1,982,440
Total Current Assets	<u>45,731,621</u>	<u>34,407,971</u>
Noncurrent Assets:		
Capital assets, net	277,093,262	296,457,111
Intangible assets, net	55,645	148,474
Net pension asset	2,296,555	-
Total Noncurrent Assets	<u>279,445,462</u>	<u>296,605,585</u>
Total Assets	<u>325,177,083</u>	<u>331,013,556</u>
Deferred Outflows of Resources:		
Deferred outflows of resources - pension	5,548,309	9,606,166
Deferred outflows of resources - OPEB group life insurance	89,584	90,000
Deferred outflows of resources - OPEB disability program	31,131	18,000
Total Deferred Outflows of Resources	<u>5,669,024</u>	<u>9,714,166</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 330,846,107</u>	<u>\$ 340,727,722</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Notes payable - bank	\$ 15,500,000	\$ 17,000,000
Current portion of long-term debt	-	2,030,000
Current portion of long-term capital lease	395,210	382,312
Accounts payable	8,975,556	3,319,401
Accrued expenses	4,301,762	4,253,796
Self-insurance liability	3,715,150	4,697,854
Advanced capital contributions	6,548,693	5,173,889
Total Current Liabilities	<u>39,436,371</u>	<u>36,857,252</u>
Other Liabilities:		
Long-term capital lease	1,304,487	1,699,697
Unearned revenues	5,090,281	-
Net pension liability	8,046,181	13,011,170
Net OPEB liability - group life insurance	1,421,000	1,656,000
Net OPEB liability - disability program	12,000	10,000
Total Other Liabilities	<u>15,873,949</u>	<u>16,376,867</u>
Total Liabilities	<u>55,310,320</u>	<u>53,234,119</u>
Deferred Inflows of Resources:		
Deferred inflows of resources - pension	3,928,823	919,035
Deferred inflows of resources - group life insurance	158,000	-
Deferred inflows of resources - disability plan	2,000	-
Total Deferred Inflows of Resources	<u>4,088,823</u>	<u>919,035</u>
Total Liabilities and Deferred Inflows of Resources	<u>59,399,143</u>	<u>54,153,154</u>
Net Position:		
Net investment in capital assets	275,449,210	292,493,576
Restricted	2,715,150	3,697,854
Unrestricted	(6,717,396)	(9,616,862)
Total Net Position	<u>271,446,964</u>	<u>286,574,568</u>
Total Liabilities and Net Position	<u>\$ 330,846,107</u>	<u>\$ 340,727,722</u>

See accompanying notes to financial statements.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Passenger fares	\$ 15,619,873	\$ 15,671,061
Charters and contracts	2,215,994	2,149,290
Auxiliary	844,716	1,124,275
Nontransportation	106,243	82,600
Total Operating Revenues	<u>18,786,826</u>	<u>19,027,226</u>
Operating Expenses:		
Labor	48,466,557	48,420,295
Fringe benefits	15,812,947	15,916,751
Depreciation and amortization	29,247,649	30,433,974
Materials and supplies	9,980,402	11,101,816
Purchase of transportation services	8,549,457	8,321,926
Contractual services	8,187,924	8,252,631
Insurance, net of ordinary recoveries	3,166,124	4,220,619
Utilities	1,205,506	1,307,840
Other	968,729	1,870,559
Total Operating Expenses	<u>125,585,295</u>	<u>129,846,411</u>
Operating loss before subsidies and grants	(106,798,469)	(110,819,185)
Subsidies and grants	79,828,501	80,224,573
Operating loss before other income (expenses)	<u>(26,969,968)</u>	<u>(30,594,612)</u>
Other Income (Expenses):		
Interest income	49,675	17,940
Interest expense	(256,016)	(471,920)
Gain (loss) on sale of capital assets	162,623	(303,634)
Contribution to other governments	-	(2,292,858)
Noncapitalized grant expenditures	(7,875,466)	(7,011,742)
Total Other Expenses, Net	<u>(7,919,184)</u>	<u>(10,062,214)</u>
Loss before proceeds from capital grants	(34,889,152)	(40,656,826)
Proceeds from capital grants	19,761,548	15,272,596
Change in net position	(15,127,604)	(25,384,230)
Net position, beginning of year	286,574,568	313,516,798
Cumulative effect of change in accounting standard	-	(1,558,000)
Net position, end of year	<u>\$ 271,446,964</u>	<u>\$ 286,574,568</u>

See accompanying notes to financial statements.

STATISTICAL SECTION

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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
CHANGES IN NET POSITION

Table I

LAST TEN FISCAL YEARS

	2018	As Restated 2017	2016	2015	As Restated 2014	2013	2012	2011	2010	2009
Operating Revenues:										
Passenger fares	\$ 15,619,873	\$ 15,671,061	\$ 16,516,616	\$ 17,058,634	\$ 16,847,734	\$ 15,059,102	\$ 16,563,517	\$ 15,329,690	\$ 14,751,980	\$ 16,953,602
Charters and contracts	2,215,994	2,149,290	2,148,932	2,790,843	175,422	18	13,742	19,200	76,800	125,905
Vanpool rentals	-	-	-	99,010	128,864	177,911	170,138	174,831	177,058	168,817
Auxiliary	844,716	1,124,275	916,238	1,166,888	914,629	1,005,820	731,827	291,817	269,226	276,053
Nontransportation	106,243	82,600	71,677	189,307	197,249	184,424	189,229	338,116	266,398	150,813
Total Operating Revenues	18,786,826	19,027,226	19,653,463	21,304,682	18,263,898	16,427,275	17,668,453	16,153,654	15,541,462	17,675,190
Operating Expenses:										
Labor	48,466,557	48,420,295	47,684,198	39,565,925	38,365,599	37,029,933	36,459,948	31,358,906	30,574,713	29,165,179
Fringe benefits	15,812,947	15,916,751	14,107,935	17,499,443	17,881,389	15,935,969	15,919,415	14,841,910	14,947,924	13,955,007
Depreciation and amortization	29,247,649	30,433,974	29,807,263	28,913,830	28,280,028	30,582,193	23,535,796	10,561,359	11,956,938	10,607,127
Materials and supplies	9,980,402	11,101,816	14,377,178	15,355,599	14,419,137	14,079,082	14,309,506	12,123,871	11,370,908	14,554,686
Purchase of transportation services	8,549,457	8,321,926	8,236,318	8,364,927	8,664,786	8,320,274	8,084,487	8,229,824	7,317,820	6,700,651
Contractual services	8,187,924	8,252,631	7,176,841	7,212,163	6,328,661	5,765,101	5,665,506	4,997,821	4,485,524	3,806,872
Insurance - net of ordinary recoveries	3,166,124	4,220,619	4,227,990	4,860,863	3,469,574	4,308,865	7,196,743	3,274,247	3,765,591	3,490,501
Utilities	1,205,506	1,307,840	1,209,725	1,242,038	1,402,569	1,361,074	1,312,737	736,784	678,685	790,534
Other	968,729	1,870,559	1,773,808	2,315,819	1,001,624	1,285,981	1,083,639	960,543	669,995	1,504,933
Total Operating Expenses	125,585,295	129,846,411	128,601,256	125,330,607	119,813,367	118,668,472	113,567,777	87,085,265	85,768,098	84,575,490
Operating loss before subsidies and grants	(106,798,469)	(110,819,185)	(108,947,793)	(104,025,925)	(101,549,469)	(102,241,197)	(95,899,324)	(70,931,611)	(70,226,636)	(66,900,300)
Subsidies and grants	79,828,501	80,224,573	79,900,451	80,140,500	74,907,981	71,304,102	71,066,933	60,555,809	58,020,430	57,263,369
Operating loss before other income (expenses)	(26,969,968)	(30,594,612)	(29,047,342)	(23,885,425)	(26,641,488)	(30,937,095)	(24,832,391)	(10,375,802)	(12,206,206)	(9,636,931)
Other Income (Expenses):										
Interest income	49,675	17,940	12,536	2,840	2,079	4,760	3,109	11,460	13,535	83,469
Interest expense	(256,016)	(471,920)	(516,644)	(538,750)	(539,967)	(631,645)	(702,559)	(725,536)	(911,415)	(877,316)
Gain (loss) on sale of capital assets	162,623	(303,634)	1,497,602	(56,954)	(8,313)	25,093	84,969	165,079	78,881	(205,541)
Noncapitalized grant expenditures	(7,875,466)	(9,304,600)	(15,976,572)	(7,747,825)	(10,201,366)	(7,802,976)	(11,313,086)	(11,680,362)	(7,210,393)	(7,966,713)
Total Other Expenses, Net	(7,919,184)	(10,062,214)	(14,983,078)	(8,340,689)	(10,747,567)	(8,404,768)	(11,927,567)	(12,229,359)	(8,029,392)	(8,966,101)
Loss before proceeds from capital grants	(34,889,152)	(40,656,826)	(44,030,420)	(32,226,114)	(37,389,055)	(39,341,863)	(36,759,958)	(22,605,161)	(20,235,598)	(18,603,032)
Proceeds from capital grants	19,761,548	15,272,596	45,398,865	19,936,757	17,805,078	15,764,870	44,962,979	111,771,158	115,595,814	122,492,587
Change in net position	(15,127,604)	(25,384,230)	1,368,445	(12,289,357)	(19,583,977)	(23,576,993)	8,203,021	89,165,997	95,360,216	103,889,555
Prior period adjustment	-	(1,558,000)	-	-	(4,588,220)	-	-	-	-	-
Net position, beginning of year	286,574,568	313,516,798	312,148,353	324,437,710	348,609,907	372,186,900	363,983,879	274,817,882	179,457,666	75,568,111
Net position, end of year	\$ 271,446,964	\$ 286,574,568	\$ 313,516,798	\$ 312,148,353	\$ 324,437,710	\$ 348,609,907	\$ 372,186,900	\$ 363,983,879	\$ 274,817,882	\$ 179,457,666

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
DEMOGRAPHIC AND OPERATING STATISTICS ¹

Table II

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Cities served ¹	6	6	6	6	6	6	6	7	7	7
Square miles ¹	432	428	431	421	421	515	515	515	369	369
Number of employees ² :										
Administrative FT	280	281	286	284	263	270	261	235	211	197
Administrative PT	77	80	85	90	85	76	81	36	27	33
Bargaining Unit FT	611	638	629	597	575	573	613	605	562	574
Bargaining Unit PT	28	24	55	59	79	103	99	134	72	72
	<u>996</u>	<u>1,023</u>	<u>1,055</u>	<u>1,030</u>	<u>1,002</u>	<u>1,022</u>	<u>1,054</u>	<u>1,010</u>	<u>872</u>	<u>876</u>
Maintenance facilities ¹	6	6	6	6	6	6	6	6	5	5
Gallons of diesel fuel ¹	2,407,893	2,448,638	2,503,943	2,530,231	2,616,249	2,535,071	2,698,447	2,811,773	2,874,687	3,098,729
Gallons of gasoline ¹	554,583	582,744	569,396	579,115	557,185	587,615	453,533	545,282	528,579	503,575
Kilowatt hours of propulsion ^{1,3}	3,621,825	3,520,125	3,678,500	3,432,625	4,368,975	3,387,625	2,950,078	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

Table III

LAST TEN FISCAL YEARS

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
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
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

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
OPERATING INDICATORS¹

Table III
(continued)

LAST TEN FISCAL YEARS

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
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
2016:					
Bus	236	10,616,777	817,866	13,241,512	64,203,470
Light Rail	6	393,524	29,955	1,369,483	5,178,799
Vanpool	26	445,988	10,845	74,079	2,818,601
Demand Response	98	3,788,225	237,016	351,654	2,948,453
Ferryboat	3	19,163	6,658	247,013	181,405
Total	369	15,263,677	1,102,340	15,283,741	75,330,728
2017:					
Bus	227	10,624,169	827,021	12,586,719	69,866,663
Light Rail	6	392,768	29,868	1,405,330	5,005,506
Vanpool	36	501,855	13,384	98,621	3,270,223
Demand Response	103	3,804,596	239,679	365,610	3,115,549
Ferryboat	3	18,972	6,612	295,983	213,395
Total	375	15,342,360	1,116,564	14,752,263	81,471,336
2018*:					
Bus	242	10,395,112	812,004	11,644,377	61,264,189
Light Rail	6	387,777	29,581	1,417,350	4,932,543
Vanpool	44	627,442	18,780	122,273	3,867,691
Demand Response	92	3,464,858	225,397	355,089	3,438,583
Ferryboat	3	18,850	6,552	327,661	235,176
Total	387	14,894,039	1,092,314	13,866,750	73,738,182

1 Source: National Transit Database

* Preliminary Data

COMPLIANCE SECTION

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**Report of Independent Auditor 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, the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Transportation District Commission of Hampton Roads (“Commission”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated January 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission’s 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 to merit 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 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 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 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* or *Specifications for Audits of Authorities, Boards, and Commissions*.

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.

Cheryl Bekant LLP

Virginia Beach, Virginia
January 28, 2019

Report of Independent Auditor on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Transportation District Commission of Hampton Roads' ("Commission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2018. The Commission's major federal program is 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 its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 Commission's 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 the major federal program. However, our audit does not provide a legal determination on the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Commission 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 Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Commission's 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cheryl Bekart LLP

Virginia Beach, Virginia
January 28, 2019

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number	Year	Federal Catalogue Number	Total Expenditures
Department of Transportation			
Direct Payments			
Federal Transit Administration Capital Improvement Grants:			
VA-04-0050	2011	Southside Facility Project - Admin Bldg.	20.500 \$ 28,357
VA-04-0058	2014	FY12 SGR-Paratransit Vans and TAM	20.500 191,985
VA-04-0060	2014	Passenger Shelters-Livability Grant	20.500 37,559
			<u>257,901</u>
Federal Transit Administration Formula Grants:			
VA-90-X369	2011	5307 Capital Grant	20.507 56,970
VA-90-X381	2012	FY 2012 Partial Apportionment-PM	20.507 154,305
VA-90-X410	2014	FY14 5307 Partial	20.507 44,460
VA-90-X430	2015	FY 2015 5307 Partial	20.507 905,465
VA-90-X533	2017	5337, 5307, 5339, STP and CMAQ Grant	20.507 773,040
VA-95-X118	2014	Bus Refurbishment and EMS Project	20.507 107,548
VA-95-X119	2015	Bus Purchase and TRAFFIX-RSTP/CMA	20.507 415,307
VA-95-X141	2015	VBTES RSTP	20.507 1,190,194
VA-95-X167	2016	FY15&16 Partial 5307 and CMAQ grant-PM and TRAFFIX	20.507 502,668
VA-95-X178	2017	5337, 5307, 5339, STP and CMAQ Grant	20.507 3,396,707
VA-96-X003	2014	\$0 Amendment - Add Operating	20.507 2,389
VA-90-X549	2018	FFY 18 5307 AND 5337 ADA, PM, and CCC	20.507 12,925,683
VA-54-X005	2018	FFY 18 5307 AND 5337 ADA, PM, and CCC	20.525 500,000
VA-90-X544	2018	FFY 2017 Capital Cost of Contracting and Preventive Maintenance	20.507 224,863
VA-1458-2018 (Application #)	2018	FY18 5307 & 5337	20.507 1,166,795
			<u>22,366,394</u>
Passed through from Department of Rail and Public Transportation			
72514-04	2015	Regional TDM program Traffix	20.507 103,827
72516-01	2016	Regional TDM program Traffix	20.507 126,169
		Total Department of Rail and Public Transportation	<u>229,996</u>
Bus Facilities Formula Program:			
VA-34-0004	2015	FY13 and 14 Section 5339 for Vehic	20.526 146,557
VA-34-0011	2017	FY15&16 Partial 5307 and CMAQ grant-PM and TRAFFIX	20.526 578,079
			<u>724,636</u>
		Subtotal - Federal Transit Cluster	<u>23,578,927</u>
Federal Transit Administration Job Access and Reverse Commute Program:			
VA-37-X022	2014	JARC Projects - Cycle 6 and 8	20.516 73,818
			<u>73,818</u>
Federal Transit Administration New Freedom Program:			
VA-57-X001	2011	New Freedom Grant	20.521 18,552
VA-57-X004	2014	Cycle 7 and 8 New Freedom Projects	20.521 12,063
			<u>30,615</u>
		Subtotal - Transit Services Program Cluster	<u>104,433</u>
Federal-Aid Highway Program			
VA-70-X001	2015	Ferryboat FHWA Flex	20.205 16,942
		Subtotal Department of Highway Planning and Construction Cluster	<u>16,942</u>
		Total Department of Transportation	<u>\$ 23,700,302</u>

* The total for Federal Transit Administration Formula Grants Federal Catalogue Number 20.507 is \$22,096,390 for the fiscal year ended June 30, 2018.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Note 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.

Note 2—Basis of accounting

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

Note 3—Indirect cost rate

The Commission does not elect to use a 10% de minimis indirect cost rate allowed under Section 2 CFR 200.331(a)(4).

**TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2018

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported under Uniform Grant Guidance: **No**
9. The programs tested as major programs were:

CFDA Number

20.500-CL

Name of Federal Program or Cluster

Federal Transit Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **\$750,000**
11. Transportation District Commission of Hampton Roads qualified as a low-risk auditee under Uniform Grant Guidance: **No**

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None reported.

C. Findings and Questioned Costs Relating to Federal Awards:

None reported.

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants:

None reported.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

<u>Comment Description and Number</u>	<u>Corrected Yes/No</u>	<u>In Process of Correcting</u>	<u>Valid Yes/No</u>	<u>Amount of Questioned Cost</u>	<u>Description of Action Taken by Commission</u>
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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

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