



**Transportation District Commission of
Hampton Roads**
Financial Report
June 30, 2023

Transportation District Commission of Hampton Roads

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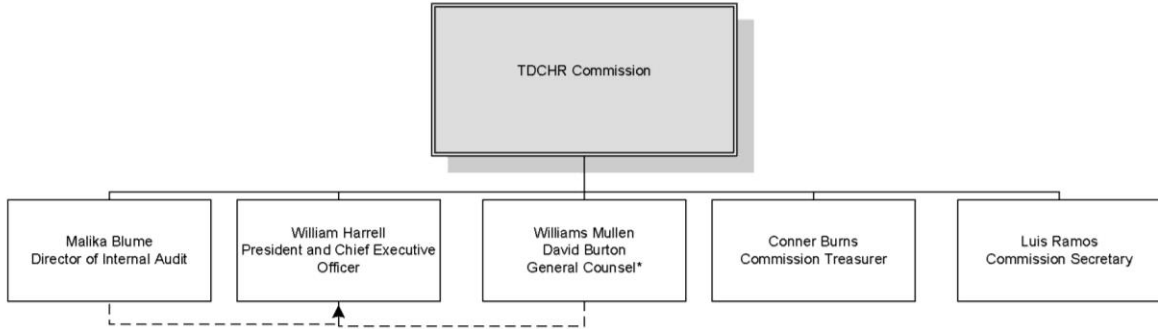
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Introductory Section

HAMPTON ROADS TRANSIT TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS ORGANIZATIONAL CHART



Note: The General Counsel and Manager of Internal Audit 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, 2023

Chairman

Amelia Ross-Hammond
City of Virginia Beach

Vice-Chairman

Patricia Woodbury
City of Newport News

Commissioners

August Bullock
City of Newport News

Don Carey
City of Chesapeake

Shannon Glover
City of Portsmouth

Jimmy Gray
City of Hampton

Kirk Houston
City of Norfolk

Charles Huner
City of Portsmouth

Stephen Johnson
City of Chesapeake

Andria McClellan
City of Norfolk

Roland White
City of Hampton

Jennifer DeBruhl
Virginia Department of Rail and Public Transportation

Lionell Spruill Sr.
Virginia Senate

Transportation District Commission of Hampton Roads

Executive Leadership Team and Staff

June 30, 2023

Executive Leadership Team

President and Chief Executive Officer	William E. Harrell
Deputy Chief Executive Officer	Brian Smith
Chief Financial Officer	Conner Burns
Chief Human Resource Officer	Kimberly Wolcott
Chief Planning and Development Officer	Raymond Amoruso
Chief Information Office/Chief Technology Officer	Michael Price
Chief Safety Officer	Dawn Sciortion
Chief Engineering and Facilities Officer	Sibyl Pappas
Chief Transit Operations Officer	Benjamin Simms
Chief Communications Officer	Alexis Majied
Attorney	Robert Travers

Finance Staff

Director of Finance	Donna Brumbaugh
Assistance Director of Finance	Adrian Tate-Baker
Director of Budget and Financial Analysis	Angela Glass
Director of Procurement	Sonya Luther
Director of Revenue Services	Sheri Dixon



Financial Section

Independent Auditor's Report

To the Commissioners of
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Transportation District Commission of Hampton Roads (the "Commission") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transportation District Commission of Hampton Roads as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Transportation District Commission of Hampton Roads and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Summarized Comparative Information

We have previously audited the Commission's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2025, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
March 25, 2025



Basic Financial Statements

Transportation District Commission of Hampton Roads

Statement of Net Position

June 30, 2023

	2023	For Comparative Purposes Only 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 9,587,259	\$ 12,231,322
Due from governments (Note 4)	25,027,155	17,423,050
Accounts receivable	3,109,895	2,501,623
Inventories (Note 5)	10,914,561	11,986,575
Prepaid expenses	538,081	1,693,286
Deposit on fuel	1,651,055	-
Total current assets	50,828,006	45,835,856
NONCURRENT ASSETS		
Capital assets, net (Note 6)	259,894,906	248,667,257
Net pension asset (Note 16)	6,004,563	9,278,831
Net other post-employment asset (Note 17)	12,508	21,764
Total noncurrent assets	265,911,977	257,967,852
Total assets	316,739,983	303,803,708
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals (Note 16)	16,483,183	6,383,350
Other post-employment benefit deferrals (Note 17)	391,042	407,674
Total deferred outflows of resources	16,874,225	6,791,024
Total assets and deferred outflows of resources	\$ 333,614,208	\$ 310,594,732
LIABILITIES		
Accounts payable	\$ 10,714,302	\$ 7,961,389
Retainage payable	266,249	-
Accrued expenses	5,261,012	9,029,656
Unearned reimbursements (Note 7)	12,071,054	8,496,729
Advanced capital contributions (Note 15)	10,707,164	10,143,900
Unearned revenues	5,710,343	6,171,343
Long-term liabilities (Note 9):		
Due within one year	7,520,444	4,401,122
Due in more than one year	39,049,097	7,719,735
Total liabilities	91,299,665	53,923,874
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals (Note 16)	2,858,972	14,186,344
Other post-employment benefit deferrals (Note 17)	292,986	513,039
Total deferred inflows of resources	3,151,958	14,699,383
Total liabilities and deferred inflows of resources	94,451,623	68,623,257
NET POSITION		
Net investment in capital assets	253,558,307	245,724,180
Restricted for pension	6,004,563	9,278,831
Restricted for other post-employment benefits	12,508	21,764
Unrestricted (deficit)	(20,412,793)	(13,053,300)
Total net position	239,162,585	241,971,475
Total liabilities, deferred inflows of resources, and net position	\$ 333,614,208	\$ 310,594,732

Transportation District Commission of Hampton Roads
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2023

	<u>2023</u>	<u>For Comparative Purposes Only 2022</u>
OPERATING REVENUES		
Passenger fares	\$ 8,672,064	\$ 8,185,451
Charters and contracts	2,646,186	2,432,016
Auxiliary	880,528	1,182,572
Nontransportation	161,896	241,451
Total operating revenues	<u>12,360,674</u>	<u>12,041,490</u>
OPERATING EXPENSES		
Labor	60,542,841	54,074,251
Fringe benefits	16,511,012	13,855,348
Depreciation and amortization	24,788,568	24,258,185
Materials and supplies	13,897,979	10,749,940
Purchase of transportation services	12,584,674	7,326,057
Contractual services	11,585,152	12,218,812
Insurance, net of ordinary recoveries	6,730,932	4,335,565
Utilities	1,480,548	1,145,911
Other	2,453,776	1,685,246
Total operating expenses	<u>150,575,482</u>	<u>129,649,315</u>
Operating loss before subsidies and grants	<u>(138,214,808)</u>	<u>(117,607,825)</u>
SUBSIDIES AND GRANTS (Note 14)	111,752,384	105,697,622
Operating loss before other income (expenses)	<u>(26,462,424)</u>	<u>(11,910,203)</u>
OTHER INCOME (EXPENSES)		
Interest income	135,580	18,864
Interest expense	(497,537)	(118,402)
Gain (loss) on sale of capital assets	117,739	(9,452)
Grant expenses, non-capital	(7,624,770)	(2,912,963)
Total other expenses	<u>(7,868,988)</u>	<u>(3,021,953)</u>
Loss before proceeds from capital grants	<u>(34,331,412)</u>	<u>(14,932,156)</u>
PROCEEDS FROM CAPITAL GRANTS (Note 14)	31,522,522	14,003,039
Change in net position	<u>(2,808,890)</u>	<u>(929,117)</u>
NET POSITION		
Beginning of year	241,971,475	242,900,592
End of year	<u><u>\$ 239,162,585</u></u>	<u><u>\$ 241,971,475</u></u>

Transportation District Commission of Hampton Roads

Statements of Cash Flows

Year Ended June 30, 2023

	2023	For Comparative Purposes Only 2022
OPERATING ACTIVITIES		
Receipts from customers and users	\$ 11,752,402	\$ 10,602,441
Payments to suppliers for goods and services	(43,273,540)	(53,633,928)
Payments to employees	(79,934,546)	(69,412,043)
Net cash used by operating activities	(111,455,684)	(112,443,530)
INVESTING ACTIVITIES		
Interest income	135,580	18,864
CAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in advanced capital contributions	563,264	1,256,425
Interest expense	(497,537)	(118,402)
Acquisition of capital assets and intangible assets	(31,522,522)	(14,003,041)
Proceeds from disposition of capital assets	126,506	21,947
Proceeds from capital grants	31,522,522	14,003,039
Subscription liability payments	(1,058,929)	-
Payments on long-term liabilities	(50,011)	(436,576)
Net cash provided (used) by capital financing activities	(916,707)	723,392
NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and grants received	107,261,604	120,971,081
Grant expenses, non-capital	(7,624,770)	(2,912,963)
Proceeds (payments) on note payable - bank	9,955,914	(4,252,022)
Net cash provided by noncapital financing activities	109,592,748	113,806,096
Increase (decrease) in cash and cash equivalents	(2,644,063)	2,104,822
CASH AND CASH EQUIVALENTS		
Beginning of year	12,231,322	10,126,500
End of year	\$ 9,587,259	\$ 12,231,322
RECONCILIATION OF OPERATING LOSS BEFORE SUBSIDIES AND GRANTS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss before subsidies and grants	\$ (138,214,808)	\$ (117,607,825)
Adjustments to reconcile operating loss before subsidies and grants to net cash used by operating activities:		
Depreciation and amortization	24,788,568	24,258,185
Pension expense, net of employer contributions	1,049,314	(2,462,186)
OPEB expense, net of employer contributions	(161,363)	(106,504)
Change in current assets and liabilities:		
Accounts receivable	(608,272)	(1,439,049)
Inventories	1,072,014	(1,074,313)
Prepaid expenses	1,155,205	2,529,227
Deposit on fuel	(1,651,055)	-
Accounts payable	2,752,913	(17,584,282)
Accrued expenses	(3,768,644)	1,086,246
Self-insurance liability	2,130,444	(43,029)
Net cash used by operating activities	\$ (111,455,684)	\$ (112,443,530)

Transportation District Commission of Hampton Roads

Statements of Cash Flows Year Ended June 30, 2023

	2023	For Comparative Purposes Only 2022
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Acquisition of leased asset and related liability	<u>\$ -</u>	<u>\$ 2,906,037</u>
Capital purchases included in retainage payable at year-end	<u>\$ 266,249</u>	<u>\$ -</u>
Acquisition of subscription-based information technology arrangements (SBITA)		
Acquired	\$ 1,455,906	\$ -
Amount financed	(1,455,906)	-
Cash paid to acquire SBITA	<u>\$ -</u>	<u>\$ -</u>
Acquisition of subscription-based information technology arrangements (SBITA) with adoption of GASB 96		
Acquired	\$ 2,780,307	\$ -
Amount financed	(2,780,307)	-
Net effect on beginning net position	<u>\$ -</u>	<u>\$ -</u>

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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 Commission (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.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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 an 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 are acquired with grant proceeds so the method and use of proceeds from disposition of property and equipment purchased with grant proceeds is restricted by the grant requirements.

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

Buildings	10 - 50 years
Light rail vehicles and infrastructure	10 - 30 years
Ferries and docks	10 - 20 years
Buses	7 - 12 years
Equipment and other	3 - 13 years
Vehicles	3 - 4 years
Intangibles	3 - 5 years
Leased warehouse space – lease asset	Life of lease
Subscriptions	Life of arrangement

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 assets 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 assets that applies to a future period and will not be recognized as revenue until that time.

Pensions

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

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Group Life Insurance

The Virginia Retirement System (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 other postemployment benefit (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 asset, 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.

Unearned Revenues

Federal funds originally designated for the extension of light rail to the City of Virginia Beach are currently being held for the purchase of buses. The funds were originally received in advance to cover costs associated with the extension of the light rail to the City. However, that project was no longer pursued by the Commission in the previous year. As a result, the funds are now being used to cover the purchase of buses, and the Commission recognizes the revenue as the buses are purchased.

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 four sections: net investment in capital assets; restricted for pensions; restricted for other post-employment benefits; and unrestricted. Net investment in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to capital expenditures. The Commission's restricted amounts for pension and other post-employment benefits are related to amounts restricted for the net pension and other post-employment benefit assets. Unrestricted amounts may be designated for specific purposes by action of management or the Board of Commissioners.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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.

Adoption of New Accounting Standard

Effective July 1, 2022, the Commission adopted Government Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. The following provides the Commission's accounting policy regarding subscription arrangements.

During the year of implementation of GASB 96, subscription arrangements have been recognized and measuring using the facts and circumstances that existed at the beginning of the year of implementation (i.e. as of July 1, 2022) or the commencement of the agreement that began during the fiscal year ended June 30, 2023. The Commission's subscription arrangements in place at the date of implementation had no prepayments (payments made at or before the commencement of the agreement) and contained no incentives, as such, the subscription liabilities have been recognized and measured at the same amount as the related right-of-use subscription asset as of the implementation date (July 1, 2022). Therefore, no restatement of the prior year net position was necessary. See additional information in Notes 6, 9, and 11.

Leases

At the commencement of a lease, the Commission initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus certain indirect costs, if any. Subsequent to the initial measurement and recognition, the lease asset is amortized on a straight-line basis over the life of the lease.

The lease asset is reported with capital assets and the lease liability is reported with long-term liabilities in the statement of net position.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Key estimates and judgements include how the Commission determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Commission uses an estimated incremental borrowing rate as the discount rate for the lease.
- The lease term includes the noncancellable periods of the lease. Lease payments are included in the measurement of the lease liabilities and are composed of fixed payments.
- The Commission monitors changes in circumstances that would require a remeasurement of its leases and will remeasure if certain changes occur that are expected to significantly affect the amount of the lease liabilities.

Subscription-Based Information Technology Arrangements (SBITAs)

At the commencement of a SBITA, the Commission initially measures the subscription liability at the present value of payments expected to be made during the term of the contract. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability adjusted for subscription payments made at or before the subscription commencement date, plus certain indirect costs, if any. Subsequent to the initial measurement and recognition, the subscription asset is amortized on a straight-line basis over the life of the contract.

The subscription asset is reported with capital assets and the subscription liability is reported with long-term liabilities in the statement of net position.

Key estimates and judgements include how the Commission determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription contract term, and (3) subscription payments.

- The Commission uses an estimated incremental borrowing rate as the discount rate for the subscription
- The subscription term includes the noncancellable periods of the subscription. Subscription payments are included in the measurement of the subscription liabilities and are composed of fixed payments.
- The Commission monitors changes in circumstances that would require a remeasurement of its subscriptions and will remeasure if certain changes occur that are expected to significantly affect the amount of the subscription liabilities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported during that period. Actual results could differ from those estimates and assumptions.

Note 3 – Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checking accounts, and the Virginia Local Government Investment Pool (LGIP). All investment accounts maintained by the Commission must abide by the general investment criteria established by the Commonwealth of Virginia for public funds.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Deposits

At June 30, 2023, the carrying value of the Commission's deposits with banks was \$6,320,235, and the bank balance was \$8,124,068. 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, 2023, the Commission had \$2,843,322 and \$423,702 invested in money market funds and the Local Government Investment Pool (LGIP) valued at fair value and amortized cost, respectively. These cash equivalents are not insured by the 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 (U.S. 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, 2023, 100% of the Commission's cash equivalents were invested in money market funds and the LGIP.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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.

Fair Value

The Commission categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based 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.

Note 4 – Due from Governments

Government receivables consisted of the following at June 30, 2023:

Federal Transit Administration	\$ 12,596,165
Commonwealth of Virginia	3,135,949
Other governmental entities	9,295,041
	<u>\$ 25,027,155</u>

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Note 5 – Inventories

Inventories consisted of the following at June 30, 2023:

Bus and service vehicle parts	\$ 5,404,594
Light rail parts	5,155,928
Fuel and oil	354,039
	\$ 10,914,561

Note 6 – Capital and Intangible Assets

A summary of changes in capital assets is as follows:

	Balance at June 30, 2022*	Additions	Transfers and Disposals	Balance at June 30, 2023
Capital assets not being depreciated or amortized:				
Land	\$ 8,900,798	\$ -	\$ -	\$ 8,900,798
Construction in progress				
Buildings and improvements	4,451,347	7,928,137	(1,586,222)	10,793,262
Other	10,493,671	2,122,871	(3,354,557)	9,261,985
Total capital assets being depreciated or amortized	23,845,816	10,051,008	(4,940,779)	28,956,045
Capital assets being depreciated or amortized:				
Buses	124,240,314	17,678,282	(8,637,836)	133,280,760
Buildings and improvements	100,336,417	1,852,471	-	102,188,888
Leased warehouse space	2,906,037	-	-	2,906,037
Subscription-based assets	2,780,307	1,455,906	-	4,236,213
Equipment	23,393,399	284,318	(2,620,246)	21,057,471
Ferries and docks	7,067,312	-	-	7,067,312
Other	16,673,818	5,228,038	(131,949)	21,769,907
Vehicles	8,454,872	1,635,433	(549,256)	9,541,049
Intangibles	4,530,262	-	-	4,530,262
Light rail	256,255,597	-	-	256,255,597
Total capital assets being depreciated or amortized	546,638,335	28,134,448	(11,939,287)	562,833,496
Accumulated depreciation and amortization:				
Buses	(73,574,509)	(8,317,710)	8,637,837	(73,254,382)
Buildings and improvements	(53,389,716)	(4,437,325)	-	(57,827,041)
Leased warehouse space	(38,364)	(115,091)	-	(153,455)
Subscription-based assets	-	(885,862)	-	(885,862)
Equipment	(22,750,388)	(288,653)	2,619,571	(20,419,470)
Ferries and docks	(3,981,896)	(189,928)	-	(4,171,824)
Other	(10,814,351)	(1,828,374)	131,949	(12,510,776)
Vehicles	(7,415,410)	(1,138,113)	541,163	(8,012,360)
Intangibles	(4,530,262)	-	-	(4,530,262)
Light rail	(142,541,691)	(7,587,512)	-	(150,129,203)
Total accumulated depreciation and amortization	(319,036,587)	(24,788,568)	11,930,520	(331,894,635)
Total capital assets being depreciated or amortized	227,601,748	3,345,880	(8,767)	230,938,861
Total capital assets, net	\$ 251,447,564	\$ 13,396,888	\$ (4,949,546)	\$ 259,894,906

*Balances as of July 1, 2022, include items related to the implementation of GASB Statement 96. See Note 1 for further discussion.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Note 7 – Unearned Reimbursements

Amounts advanced by participating municipalities to various operating subsidies and/or grant agreements are as follows at June 30, 2023:

City of Chesapeake	\$	949,000
City of Hampton		1,393,435
City of Newport News		2,091,793
City of Norfolk		4,695,272
City of Portsmouth		858,539
City of Virginia Beach		2,083,015
	\$	<u>12,071,054</u>

The amounts owed by 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 matured January 31, 2025. The line was renewed after year end and matures on January 31, 2026. 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 were payable monthly at a fluctuating rate per annum equal to 83% of the American Interbank Offered Rate (AMERIBOR) plus 150 basis points with a floor of 4% (5.66% at June 30, 2023).

At June 30, 2023, the Commission owed \$13,042,949 against the line of credit and had \$3,957,051 available under the line of credit agreement. The agreement provided for certain actions to be taken in events of default including acceleration of payment of the line of credit balance, termination of the lender’s commitment to make further advances, foreclosure against collateral pledged under the provisions of the agreement, and increasing the interest rate in effect by the 3% default rate until paid in full.

Note 9 – Long-Term Liabilities

Following is a summary of liabilities transactions of the Commission:

	Balance at June 30, 2022*	Additions	Reductions	Balance at June 30, 2023	Due Within One Year
Self-insurance	\$ 4,351,112	\$ 3,756,609	\$ (1,626,165)	\$ 6,481,556	\$ 6,481,556
Notes payable - bank	3,087,035	9,955,914	-	13,042,949	-
Financed purchase	37,040	-	(37,040)	-	-
Lease liabilities	2,906,037	-	(12,971)	2,893,066	34,933
Net OPEB liability	1,025,840	32,802	-	1,058,642	-
Net pension liability	713,793	19,202,251	-	19,916,044	-
Subscription liability	2,780,307	1,455,906	(1,058,929)	3,177,284	1,003,955
	<u>\$ 14,901,164</u>	<u>\$ 34,403,482</u>	<u>\$ (2,735,105)</u>	<u>\$ 46,569,541</u>	<u>\$ 7,520,444</u>

*Balances as of July 1, 2022, include items related to the implementation of GASB Statement 96. See Note 1 for further discussion.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

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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 for the year ended June 30, 2023. This resulted in accumulated depreciation of \$2,320,355 as of June 30, 2023. The lease was paid in full during the year ended June 30, 2023.

Note 10 – Lease Liability

The Commission, as a lessee, entered into a noncancellable lease agreement for the use of warehouse space in March 2022. The Commission recognized an intangible right-to-use asset and related lease liability. Payments of \$14,300 are due monthly through June 2027 at which point the payments escalate every five years through 2047 and are discounted at 4.75%.

Future maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 34,933	\$ 136,667	\$ 171,600
2025	36,629	134,971	171,600
2026	38,408	133,192	171,600
2027	41,702	131,328	173,030
2028	59,835	128,925	188,760
2029-2033	366,617	597,632	964,249
2034-2038	573,068	487,606	1,060,674
2039-2043	845,579	321,162	1,166,741
2044-2048	896,295	87,726	984,021
	<u>\$ 2,893,066</u>	<u>\$ 2,159,209</u>	<u>\$ 5,052,275</u>

Related lease assets totaling \$2,906,037, offset by accumulated amortization of \$153,455, are included in capital assets, net on the statement of net position as of June 30, 2023. See Note 6.

Note 11 – Subscription-Based Information Technology Arrangements

The Commission has subscription-based information technology arrangements for the use of interactive voice response systems, software systems, and the Enterprise Resource Planning system. During 2023, the Commission adopted GASB 96, *Subscription-Based Information Technology Arrangements* and used discount rates of 2.84% - 4.21% based on risk-free U.S. Treasury rates for the various subscription agreements. The Commission recognized subscription assets and liabilities of \$2,780,307 for the agreements in place at the date of implementation (i.e. as of July 1, 2022). The Commission recognized subscription assets and liabilities of \$1,455,906 for the agreements that commenced during the year ended June 30, 2023. During 2023, the Commission reported SBITA amortization and interest expense of \$885,862 and \$81,505, respectively, which is included depreciation and amortization expense and interest expense, respectively, in the statement of revenues, expenses, and changes in net position. Payments are due annually through 2027.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Future maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,003,955	\$ 98,310	\$ 1,102,265
2025	779,410	69,122	848,532
2026	675,305	43,190	718,495
2027	718,614	22,249	740,863
	\$ 3,177,284	\$ 232,871	\$ 3,410,155

SBITA assets totaling \$4,236,213, offset by accumulated amortization of \$885,862, are included in subscription asset, net on the statement of net position as of June 30, 2023. See Note 6.

Note 12 – Compensated Absences

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

Length of Service	Days Earned Per Year
0 - 5 years	10 days
6 - 10 years	15 days
11 or more years	20 days

All non-union 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.

The Commission has accrued \$1,484,833 at June 30, 2023, for compensated absences. Compensated absences are included in accrued expenses on the statement of net position.

The following is a summary of the compensated absences transactions of the Commission:

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Due Within One Year
Compensated absences	\$ 1,469,622	\$ 922,260	\$ (907,049)	\$ 1,484,833	\$ 1,484,833

Note 13 – Self-Insurance

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.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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 last two fiscal years ended June 30:

	<u>Beginning Balance</u>	<u>Claims and Reserves</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2023	\$ 4,351,112	\$ 3,756,609	\$ 1,626,165	\$ 6,481,556
2022	\$ 4,394,141	\$ 2,073,593	\$ 2,116,622	\$ 4,351,112

Note 14 – Subsidies and Grants

Subsidies and grants for operating purposes were as follows for the fiscal year ended June 30, 2023:

Federal	\$ 34,068,410
State	66,413,734
Local	<u>42,792,762</u>
	143,274,906
Capital grants	<u>(31,522,522)</u>
	<u>\$ 111,752,384</u>

Note 15 – Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share of capital grants. Contributions received from local governments exceeded amounts expended by \$10,707,164 at June 30, 2023.

Note 16 – Defined Benefit Pension Plan

The Commission contributes to the Virginia Retirement System (VRS), an agent, multiple employer defined benefit pension plan administered by the VRS. The Commission also administers a single employer defined benefit 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 upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer 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.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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 available at:

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees covered by benefit terms

As of the June 30, 2021, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	123
Inactive members:	
Vested inactive members	62
Non-vested inactive members	174
Inactive members active elsewhere in VRS	43
Total inactive members	<u>402</u>
Active members	<u>282</u>
Total covered employees	<u><u>684</u></u>

Contributions

The contributions requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Commission's contractually required contribution rate for the year ended June 30, 2023, was 3.94% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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. Contributions to the pension plan from the Commission were \$604,691 for the year ended June 30, 2023.

Net Pension Liability (Asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No.68, less that employer's fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

Actuarial Assumptions

The total pension liability for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates: 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2021, valuation was based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rates; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System 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 System 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	34.00%	5.71%	1.94%
Fixed income	15.00%	2.04%	0.31%
Credit strategies	14.00%	4.78%	0.67%
Real assets	14.00%	4.47%	0.63%
Private equity	14.00%	9.73%	1.36%
MAP - Multi-asset public strategies	6.00%	3.73%	0.22%
PIP - Private investment partnership	3.00%	6.55%	0.20%
	100.00%		5.33%
	Inflation		2.50%
			7.83%

* Expected arithmetic nominal return

*The above allocation provides a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

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Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021, actuarial valuations, whichever was greater. From July 1, 2022, on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2021	\$ 48,684,310	\$ 57,963,141	\$ (9,278,831)
Changes for the year:			
Service cost	1,489,837	-	1,489,837
Interest	3,318,807	-	3,318,807
Difference between expected and actual experience	(124,627)	-	(124,627)
Contributions - employer	-	577,485	(577,485)
Contributions - employee	-	937,156	(937,156)
Net investment income	-	(70,272)	70,272
Benefit payments, including refunds of employee contributions	(2,013,275)	(2,013,275)	-
Administrative expense	-	(35,968)	35,968
Other	-	1,348	(1,348)
Net changes	<u>2,670,742</u>	<u>(603,526)</u>	<u>(3,274,268)</u>
Balances at June 30, 2022	<u>\$ 51,355,052</u>	<u>\$ 57,359,615</u>	<u>\$ (6,004,563)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following represents the net pension liability (asset) calculated using the discount rate of 6.75%, as well as what the net position liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Commission's net pension liability (asset)	<u>\$ 866,777</u>	<u>\$ (6,004,563)</u>	<u>\$ (11,578,039)</u>

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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

For the year ended June 30, 2023, the Commission recognized pension expense (benefit) of \$(486,290). At June 30, 2023, 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	\$ 604,691	\$ -
Differences between expected and actual experience	-	207,912
Changes of assumptions	376,227	-
Net difference between projected and actual earnings	-	1,642,233
	\$ 980,918	\$ 1,850,145

The \$604,691 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction (increase) of the net pension liability (asset) in fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Effect on Pension Expense
2024	\$ (442,411)
2025	(713,417)
2026	(1,111,049)
2027	792,959

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report by be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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 Commission, 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.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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, 2022, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	349
Inactive members entitled to but not yet receiving benefits	40
Active members	582
Total	<u>971</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. Compensation is limited to \$330,000 per year, per IRC Section 401(a)(17).

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 with a minimum contribution of \$10. 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 with a minimum contribution of \$40. To the extent the value of unused sick leave is included in the compensation used to determine retirement benefits, the employer contributes an amount equal to the combined employer and employee contribution rate on that value to the Plan. For the fiscal year ended June 30, 2023, the actuarially determined total rate was 10.93% of annual pay, and there were no changes in plan provisions from the previous measurement date. Contributions to the pension plan from the Commission were \$2,869,087 for the year ended June 30, 2023

Discount Rate

The discount rate used to measure the Total Pension Liability (TPL) was 6.50% as of December 31, 2022. The projection of cash flows used to determine the discount rate assumed that 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 employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Net Pension Liability

The Commission's net pension liability was measured as of December 31, 2022. The TPL used to calculate the net pension liability was determined by an actuarial valuation performed as of January 1, 2023, 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, 2022, using the discount rate of 6.50%, as well as what the Plan's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1.00% Decrease (5.50%)	Current Discount Rate (6.50%)	1.00% Increase (7.50%)
Plan's net pension liability (asset)	<u>\$ 29,992,813</u>	<u>\$ 19,916,044</u>	<u>\$ 11,406,775</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2022, 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	6.50%, net of pension plan investment expenses, including inflation

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 from 2014.

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 ten years.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Long-Term Expected Rate of Return

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 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, adding expected inflation. The target allocation (approved by the Pension Plan Administration Committee) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected rate of return assumption as of December 31, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	27.50%	6.75%
International developed markets equity	10.00%	7.04%
Emerging markets equity	10.00%	8.51%
Core and global fixed income	21.00%	1.57%
High yield fixed income	4.90%	3.62%
Emerging markets debt	4.10%	3.62%
Real estate	7.50%	3.53%
Infrastructure	7.50%	5.58%
Alternatives	7.50%	3.13%
	100.00%	

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at December 31, 2021	\$ 88,436,674	\$ 87,722,881	\$ 713,793
Changes for the year:			
Service cost	2,701,624	-	2,701,624
Interest	5,741,822	-	5,741,822
Contributions - employer	-	2,628,521	(2,628,521)
Contributions - employee	-	1,019,577	(1,019,577)
Difference between expected and actual experience	(1,053,998)	-	(1,053,998)
Change of benefit terms	-	-	-
Changes of assumptions	-	-	-
Net investment income	-	(15,316,068)	15,316,068
Benefit payments, net of refunds	(5,605,152)	(5,605,152)	-
Administrative expense	-	(161,901)	161,901
Other changes	-	17,068	(17,068)
Net changes	1,784,296	(17,417,955)	19,202,251
Balances at December 31, 2022	\$ 90,220,970	\$ 70,304,926	\$ 19,916,044

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

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

For the year ended June 30, 2023, the Commission recognized pension expense of \$3,556,680. At June 30, 2023, 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
Difference between expected and actual experience	\$ 161,854	\$ 1,008,827
Employer contributions made subsequent to measurement date	1,427,235	-
Net difference between projected and actual earnings	11,503,711	-
Changes of assumptions	2,409,465	-
	\$ 15,502,265	\$ 1,008,827

The \$1,427,235 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2023, will be recognized in pension expense as follows:

Year Ended June 30,	Effect on Pension Expense
2024	\$ 1,863,657
2025	3,313,829
2026	3,746,562
2027	4,142,155

Aggregating Pension Information

	VRS	Local	Total
Net pension asset	\$ 6,004,563	\$ -	\$ 6,004,563
Deferred outflows of resources	980,918	15,502,265	16,483,183
Net pension liability	-	19,916,044	19,916,044
Deferred inflows of resources	1,850,145	1,008,827	2,858,972
Pension expense/(benefit)	(486,290)	3,556,680	3,070,390

Note 17 – Other Postemployment Benefit Programs

In addition to their participation in the pension plan offered through the Virginia Retirement System (VRS), the Commission also participates in multiple-employer cost-sharing other postemployment benefit plans, described as follows.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Group Life Insurance

Plan Description

All full-time teachers and employers of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) program upon employment.

In addition to the Basic Group Life Insurance 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.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

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 school divisions and governmental agencies by the Virginia General Assembly. The total rate for the GLI Program was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% 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, 2023, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined 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 fund any unfunded accrued liability. Contributions to the GLI Program from the Commission were \$117,908 and \$103,277 for the years ended June 30, 2023 and 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance plan. The special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

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, 2023, the Commission reported a liability of \$1,058,642 for its proportionate share of the Net GLI OPEB liability. The Net GLI OPEB liability was measured as of June 30, 2022, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. 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, 2022, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, and 2021, the Commission's proportion was 0.08792% and 0.08811%, respectively.

For the year ended June 30, 2023, the Commission recognized GLI OPEB expense (benefit) of \$18,081. 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.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

At June 30, 2023, the Commission 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
Difference between expected and actual experience	\$ 83,831	\$ 42,470
Net difference between projected and actual earnings on GLI OPEB plan investments	-	66,150
Changes of assumptions	39,486	103,116
Changes in proportion	22,644	49,460
Employer contributions subsequent to the measurement date	117,908	-
	\$ 263,869	\$ 261,196

The 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 to the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. 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:

Year Ended June 30,	Increase (Reduction) to OPEB Expense
2024	\$ (34,283)
2025	(27,788)
2026	(56,245)
2027	11,431
2028	(8,350)

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 Virginia Local Disability Program. 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 Virginia Local Disability Program (VLDP).

Specific information about the VLDP is available at <https://www.varetirement.org/hybrid/benefits/disability/virginia-local-disability-program.html>

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Contributions

Contributions to the VRS VLDP OPEB program were based on actuarially determined rates from an actuarial valuation as of June 30, 2021. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Governed by:	<i>Code of Virginia 51.1-1178(C)</i> and may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly.
Total rate:	0.85% of covered employee compensation.
June 30, 2023, Contribution	\$108,247

VLDP OPEB Liabilities (Assets), VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

The net VLDP OPEB liability (asset) was measured as of June 30, 2022, and the total VLDP OPEB liability (asset) used to calculate the net VLDP OPEB liability (asset) was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employee's proportion of the net VLDP OPEB liability (asset) was based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2022, relative to the total of the actuarially determined employer contributions for all participating employers.

June 30, 2023, proportionate share of VLDP OPEB liability (asset)	\$(12,508)
June 30, 2022, proportion	2.12742%
June 30, 2021, proportion	2.15006%
June 30, 2023, expense	\$68,472

Since there was a change in proportionate share between measurement dates, a portion of the VLDP OPEB expense above was related to deferred amounts from changes in proportion.

At June 30, 2023, the Commission report deferred outflows of resources and deferred inflows of resources related to VLDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 17,586	\$ 26,765
Net difference between projected and actual earnings on VLDP OPEB plan investments	-	55
Changes of assumptions	479	4,487
Changes in proportion	861	483
Employer contributions subsequent to the measurement date	108,247	-
	\$ 127,173	\$ 31,790

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

The 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 (increase) of the VLDP OPEB liability (asset) in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will also be recognized in the VLDP OPEB expense in future reporting periods as follows for years ended:

Year Ended June 30,	Increase (Reduction) to OPEB Expense
2024	\$ (842)
2025	(1,008)
2026	(5,600)
2027	658
2028	(918)
Thereafter	(5,154)

Actuarial Assumptions and Other Inputs for Other Postemployment Benefits

The total OPEB liability (asset) was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

Inflation	2.50%
Salary increases, including inflation:	
General state employees	3.50% - 5.35%
Public safety employees with hazardous duty benefits	3.50% - 4.75%
Teachers cost sharing plan	3.50% - 5.95%
Investment rate of return, net of expenses, including inflation	6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 16.

Net OPEB Liability (Asset)

The net OPEB liabilities (assets) represent each program's total OPEB liability (asset) determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2022, net OPEB liability (asset) amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Virginia Local Disability OPEB Program	Group Life Insurance OPEB Program
Total OPEB liability	\$ 7,360	\$ 3,672,086
Plan fiduciary net position	7,948	2,467,989
Employers' net OPEB liability (asset)	\$ (588)	\$ 1,204,097
Plan fiduciary net position as a percentage of the total OPEB liability	107.99%	67.21%

The total OPEB liability (asset) is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability (asset) is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to financial statements and required supplementary information.

Transportation District Commission of Hampton Roads

Notes to Financial Statements

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Long-Term Expected Rate of Return

The long-term expected rate of return for the OPEB plan is the same as that used for the actuarial valuations of the VRS pension plan. The long-term expected rate of return is discussed in detail in Note 16.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System 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 ended June 30, 2022, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020, on, participating 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 current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liabilities of the Commission, as well as what the Commission's net OPEB liabilities (assets) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Commission's net GLI OPEB Liability	<u>\$ 1,540,447</u>	<u>\$ 1,058,642</u>	<u>\$ 669,277</u>
Commission's net VLDP OPEB Liability (Asset)	<u>\$ 1,326</u>	<u>\$ (12,508)</u>	<u>\$ (24,520)</u>

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net positions is available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Aggregating OPEB Information

	GLI	VLDP	Total
Net OPEB asset	\$ -	\$ 12,508	\$ 12,508
Deferred outflows of resources	263,869	127,173	391,042
Net OPEB liability	1,058,642	-	1,058,642
Deferred inflows of resources	261,196	31,790	292,986
OPEB (benefit) expense	18,081	68,472	86,553

Transportation District Commission of Hampton Roads

Notes to Financial Statements

June 30, 2023

Note 18 – Contingencies

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.

The Commission continues to face economic impacts of the Coronavirus (COVID-19) pandemic and will rely on continued aid from state and federal resources. As of June 30, 2023, the Commission had expended all of the Coronavirus Response and Relief Supplemental Appropriation (CRRSAA) funding. As of June 30, 2023, the Commission had not yet incurred expenses to drawn down on approximately \$38 million in American Rescue Plan (ARP) funding and approximately \$53 million in American Rescue Plan (ARP) Discretionary Funding that were available to the Commission.

Note 19 – Subsequent Event

In October 2024, the Commission entered into a purchase agreement to purchase property located in Norfolk, VA to build a transfer site for a total of \$3,800,000. The Commission has paid a deposit of \$500,000 toward the purchase agreement. As of the date this report was available to be issued, the Commission had not purchased the property.



Required Supplementary Information

Transportation District Commission of Hampton Roads
Schedules of Changes in Net Pension Liability and Related Ratios
Virginia Retirement System

Plan Year Ended June 30,**	2022	2021	2020	2019	2018	2017	2016	2015
TOTAL PENSION LIABILITY								
Service cost	\$ 1,489,837	\$ 1,501,929	\$ 1,509,002	\$ 1,547,473	\$ 1,549,494	\$ 1,722,982	\$ 1,666,613	\$ 1,645,945
Interest	3,318,807	2,990,144	2,854,135	2,746,548	2,572,874	2,458,439	2,292,254	2,132,196
Changes of assumptions	-	1,176,711	-	1,264,806	-	(608,159)	-	-
Differences between expected and actual experience	(124,627)	(318,730)	(443,211)	(696,895)	12,952	(489,591)	(273,907)	(264,067)
Benefit payments, including refunds	(2,013,275)	(1,928,331)	(1,881,653)	(1,748,033)	(1,560,504)	(1,337,254)	(1,284,530)	(1,170,235)
Net change in total pension liability	2,670,742	3,421,723	2,038,273	3,113,899	2,574,816	1,746,417	2,400,430	2,343,839
Total pension liability, beginning	48,684,310	45,262,587	43,224,314	40,110,415	37,535,599	35,789,182	33,388,752	31,044,923
Total pension liability, ending (a)	<u>\$ 51,355,052</u>	<u>\$ 48,684,310</u>	<u>\$ 45,262,587</u>	<u>\$ 43,224,314</u>	<u>\$ 40,110,415</u>	<u>\$ 37,535,599</u>	<u>\$ 35,789,182</u>	<u>\$ 33,388,762</u>
PLAN FIDUCIARY NET POSITION								
Contributions, employer	\$ 577,485	\$ 565,233	\$ 590,920	\$ 610,241	\$ 943,256	\$ 979,749	\$ 977,368	\$ 934,294
Contributions, employee	937,156	831,070	829,915	859,548	820,005	919,527	881,024	789,916
Net investment income	(70,272)	12,600,942	870,320	2,882,188	2,963,678	4,332,554	617,701	1,483,386
Benefit payments, including refunds of employee contributions	(2,013,275)	(1,928,331)	(1,881,653)	(1,748,033)	(1,560,504)	(1,337,254)	(1,284,530)	(1,170,235)
Administrative expenses	(35,968)	(31,049)	(29,458)	(28,048)	(24,923)	(24,013)	(20,514)	(19,456)
Other changes	1,348	1,190	(1,035)	(1,818)	(2,667)	(3,893)	(256)	(316)
Net change in plan fiduciary net position	(603,526)	12,039,055	379,009	2,574,078	3,138,845	4,866,670	1,170,793	2,017,589
Plan fiduciary net position, beginning	57,963,141	45,924,086	45,545,077	42,970,999	39,832,154	34,965,484	33,794,691	31,777,102
Plan fiduciary net position, ending (b)	<u>\$ 57,359,615</u>	<u>\$ 57,963,141</u>	<u>\$ 45,924,086</u>	<u>\$ 45,545,077</u>	<u>\$ 42,970,999</u>	<u>\$ 39,832,154</u>	<u>\$ 34,965,484</u>	<u>\$ 33,794,691</u>
Net pension liability, ending (a) - (b)	<u>\$ (6,004,563)</u>	<u>\$ (9,278,831)</u>	<u>\$ (661,499)</u>	<u>\$ (2,320,763)</u>	<u>\$ (2,860,584)</u>	<u>\$ (2,296,555)</u>	<u>\$ 823,698</u>	<u>\$ (405,929)</u>
Plan fiduciary net position as a percentage of the total pension liability	112%	119%	101%	105%	107%	106%	98%	101%
Covered payroll*	<u>\$ 19,111,824</u>	<u>\$ 18,124,705</u>	<u>\$ 17,642,552</u>	<u>\$ 17,270,832</u>	<u>\$ 17,227,619</u>	<u>\$ 17,401,786</u>	<u>\$ 16,989,819</u>	<u>\$ 15,945,689</u>
Net pension liability as a percentage of covered payroll	-31%	-51%	-4%	-13%	-17%	-13%	5%	-3%

*Covered payroll represents the total pensionable payroll for employees covered under the pension plan, in accordance with GASB Statement No. 82.

**The plan years above are reported in the Commission's financial statements in the fiscal year following the plan year.

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented. Information prior to 2015 measurement date is not readily available.

Transportation District Commission of Hampton Roads
Schedules of Changes in Net Pension Liability and Related Ratios
Retirement Plan of Transportation District Commission of Hampton Roads

Year Ended December 31,	2022	2021	2020	2019	2018	2017	2016	2015
TOTAL PENSION LIABILITY								
Service cost	\$ 2,701,624	\$ 2,442,346	\$ 2,164,795	\$ 2,091,589	\$ 2,170,056	\$ 2,096,672	\$ 1,942,521	\$ 1,937,014
Interest	5,741,822	5,668,563	5,403,407	5,213,926	5,256,473	5,047,386	4,716,744	4,465,478
Changes of assumptions and benefit terms	-	4,750,299	356,948	-	(3,400,081)	-	682,990	(104,384)
Differences between expected and actual experience	(1,053,998)	(374,852)	479,218	-	-	-	1,260,323	3,109,006
Benefit payments, including refunds	(5,605,152)	(5,173,607)	(4,614,356)	(4,729,343)	(4,382,248)	(4,078,731)	(3,681,036)	(3,574,555)
Net change in total pension liability	1,784,296	7,312,749	3,790,012	2,576,172	(355,800)	3,065,327	4,921,542	5,832,559
Total pension liability, beginning	88,436,674	81,123,925	77,333,913	74,757,741	75,113,541	72,048,214	67,126,672	61,294,113
Total pension liability, ending (a)	<u>\$ 90,220,970</u>	<u>\$ 88,436,674</u>	<u>\$ 81,123,925</u>	<u>\$ 77,333,913</u>	<u>\$ 74,757,741</u>	<u>\$ 75,113,541</u>	<u>\$ 72,048,214</u>	<u>\$ 67,126,672</u>
PLAN FIDUCIARY NET POSITION								
Contributions, employer	\$ 2,628,521	\$ 2,445,978	\$ 2,564,460	\$ 2,197,312	\$ 2,243,867	\$ 2,333,012	\$ 2,184,142	\$ 2,019,707
Contributions, employee	1,019,577	940,973	993,285	816,780	860,429	877,097	894,542	803,688
Net investment income	(15,316,068)	8,588,946	9,935,975	11,797,747	(3,342,739)	8,188,123	4,817,005	(674,158)
Benefit payments, including refunds of employee contributions	(5,605,152)	(5,173,607)	(4,614,356)	(4,729,343)	(4,382,248)	(4,078,731)	(3,681,036)	(3,574,555)
Administrative expenses	(161,901)	(141,147)	(125,441)	(132,712)	(130,789)	(112,884)	(128,321)	(146,392)
Other changes	17,068	9,086	11,973	18,096	2,996	-	(329,075)	-
Net change in plan fiduciary net position	(17,417,955)	6,670,229	8,765,896	9,967,880	(4,748,484)	7,206,617	3,757,257	(1,571,710)
Plan fiduciary net position, beginning	87,722,881	81,052,652	72,286,756	62,318,876	67,067,360	59,860,743	56,103,486	57,675,196
Plan fiduciary net position, ending (b)	<u>\$ 70,304,926</u>	<u>\$ 87,722,881</u>	<u>\$ 81,052,652</u>	<u>\$ 72,286,756</u>	<u>\$ 62,318,876</u>	<u>\$ 67,067,360</u>	<u>\$ 59,860,743</u>	<u>\$ 56,103,486</u>
Net pension liability, ending (a) - (b)	<u>\$ 19,916,044</u>	<u>\$ 713,793</u>	<u>\$ 71,273</u>	<u>\$ 5,047,157</u>	<u>\$ 12,438,865</u>	<u>\$ 8,046,181</u>	<u>\$ 12,187,471</u>	<u>\$ 11,023,186</u>
Plan fiduciary net position as a percentage of the total pension liability	78%	99%	100%	93%	83%	89%	83%	84%
Covered-employee payroll*	<u>\$ 34,812,052</u>	<u>\$ 33,515,890</u>	<u>\$ 30,553,591</u>	<u>\$ 29,394,356</u>	<u>\$ 29,193,068</u>	<u>\$ 29,517,820</u>	<u>\$ 28,172,411</u>	<u>\$ 25,916,719</u>
Net pension liability as a percentage of covered payroll	57%	2%	0.23%	17%	43%	27%	43%	43%

*Covered payroll represents the total pensionable payroll for employees covered under the pension plan, in accordance with GASB Statement No. 82.

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented. Information prior to 2015 measurement date is not readily available.

Transportation District Commission of Hampton Roads

Schedules of Employer's Share of Net OPEB Liability

Plan Year Ended June 30,	Employer's Proportion of Net OPEB Liability (Asset)	Employer's Proportionate Share of Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
Group Life Insurance Program					
2022	0.08792%	\$ 1,058,642	\$ 19,125,398	0.055%	67.21%
2021	0.08811%	1,025,840	18,192,403	0.056%	67.45%
2020	0.08581%	1,432,028	17,660,146	0.081%	52.64%
2019	0.08833%	1,437,000	17,316,059	0.083%	52.00%
2018	0.09071%	1,377,000	17,227,619	0.080%	51.22%
2017	0.09446%	1,421,000	17,422,839	0.082%	48.86%
2016	0.09465%	1,656,000	17,009,149	0.095%	41.18%
Virginia Local Disability Program					
2022	2.12742%	\$ (12,508)	\$ 9,966,749	0.0013%	107.99%
2021	2.15006%	(21,764)	8,637,107	0.0025%	119.59%
2020	2.04016%	(20,366)	7,602,427	0.0027%	76.84%
2019	2.04490%	(41,426)	6,319,235	0.0066%	49.19%
2018	2.14917%	(16,000)	5,188,540	0.0031%	51.39%
2017	2.21134%	(12,000)	4,060,662	0.0030%	38.40%
2016	2.59536%	(10,000)	3,205,499	0.0031%	0.00%

*The schedule is intended to show information for 10 years. Information prior to 2016 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

Schedules of Employer Contributions

Date	Actuarially Determined Contribution	Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
Virginia Retirement System					
2023	\$ 604,691	\$ 604,691	\$ -	\$ 21,829,611	2.77%
2022	588,335	588,335	-	19,111,824	3.08%
2021	565,379	565,379	-	18,124,705	3.12%
2020	590,939	590,939	-	17,642,552	3.35%
2019	610,144	610,144	-	17,270,832	3.53%
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%

Retirement Plan of Transportation District Commission of Hampton Roads					
2023	\$ 2,869,087	\$ 2,869,087	\$ -	\$ 34,812,052	8.24%
2022	2,404,229	2,404,229	-	33,515,890	7.17%
2021	2,604,332	2,604,332	-	30,553,591	8.52%
2020	2,267,251	2,267,251	-	29,394,356	7.71%
2019	2,293,699	2,293,699	-	29,193,068	7.86%
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%

*These schedules are intended to show information for 10 years. Information prior to 2015 is not readily available. Additional years will be included as they become available.

Group Life Insurance Program					
2023	\$ 117,908	\$ 117,908	\$ -	\$ 21,834,761	0.54%
2022	103,277	103,277	-	19,125,398	0.54%
2021	98,153	98,153	-	18,192,403	0.54%
2020	91,805	91,805	-	17,660,146	0.52%
2019	90,044	90,044	-	17,316,059	0.52%
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%

Virginia Local Disability Program					
2023	\$ 108,247	\$ 108,247	\$ -	\$ 12,734,974	0.85%
2022	87,724	87,724	-	9,966,749	0.88%
2021	71,542	71,542	-	8,637,107	0.83%
2020	54,711	54,711	-	7,602,427	0.72%
2019	45,498	45,498	-	6,319,235	0.72%
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%

Transportation District Commission of Hampton Roads

Notes to Required Supplementary Information

June 30, 2023

Virginia Retirement System

Changes of Benefit Terms

There have been no actuarial material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Changes of Assumptions

The following actuarial assumptions used in the June 30, 2021, valuation was based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, expect the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scape MP-2020.
Retirement Rates	Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Retirement Plan of the Transportation District Commission of Hampton Roads

Valuation date	Actuarially determined contribution is calculated 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 improvement
Remaining amortization period	30 years, with benefit improvements over 5 years closed
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between actual market return and the expected return on the actuarial value, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	7.00%, including inflation, net of pension plan investment expense.
Investment rate of return	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

Transportation District Commission of Hampton Roads

Notes to Required Supplementary Information

June 30, 2023

Retirement rates	<u>Age</u>	<u>Retirement Probability</u>
	50-55	7%
	56-59	4%
	60	10%
	61	15%
	62-63	40%
	64	30%
	65 & older	100%

Mortality rates RP-2014 Blue Collar Employee Mortality Table, set forward two years and projected generationally with Scale MP2016 from 2014.
 RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years and projected generationally with Scale MP2016 from 2014.
 RP-2014 Disabled Retiree Mortality, set forward two years and projected generationally with Scale MP2016 from 2014.

Group Life Insurance

Changes of Benefit Terms

There have been no actuarial material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions

The actuarial assumptions used in the June 30, 2021, valuation was based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, expect the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted withdrawal rates to better fit experience at each age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Transportation District Commission of Hampton Roads

Notes to Required Supplementary Information

June 30, 2023

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted withdrawal rates to better fit experience at each age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Virginia Local Disability Program

Changes of Benefit Terms

There have been no actuarial material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions

The actuarial assumptions used in the June 30, 2021, valuation was based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, expect the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRRS Board action are as follows:

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Transportation District Commission of Hampton Roads

Notes to Required Supplementary Information

June 30, 2023

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change



Compliance Section



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

To the Commissioners of
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 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 Transportation District Commission of Hampton Roads (the "Commission"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 25, 2025.

Report on 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) as a basis for designing 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2023-001 and 2023-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission 's financial statements are free from 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 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 that is required to be reported under *Government Auditing Standards*.

Transportation District Commission of Hampton Roads' Responses to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Commission's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Commission's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
March 25, 2025

Transportation District Commission of Hampton Roads

Summary of Compliance Matters

June 30, 2023

As more fully described in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Commission's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

State Compliance Matters

Code of Virginia

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Transportation District Commission of Hampton Roads

Schedule of Findings and Responses

June 30, 2023

A – Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the financial statements.
2. Two material weaknesses relating to the audit of financial statements were reported in the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements were disclosed.

B – Findings – Financial Statements

2023-001: Proposed Audit Adjustments (Material Weakness)

Condition

Yearly, the Commission’s Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report produced within the Finance Department. In order to ensure that transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial statements. During the year end-close and financial audit process, we identified misstatements, some of which were considered material, to the financial statements resulting in the adjustment of the Commission’s financial records.

Criteria

In order to prepare financial statements in accordance with U.S. GAAP, accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets, liabilities, revenues, and expenses to ensure an accurate presentation of the financial position and activity of the Commission for the fiscal year ended.

Cause

During the second quarter of fiscal year 2020, the Commission implemented a new general ledger accounting system. Significant issues stemming from the implementation of an unstable system, coupled with staff turnover and lack of staff resulted in a lack of technical critical mass to analyze the myriad of transactions the Commission entered into yearly, curtailing the Commission’s ability to provide auditable and timely financial records.

Effect

The Commission’s financial statements were materially misstated.

Recommendation

We recommend that regular reconciliations be performed over the major general ledger accounts and reviewed by individuals other than those who performed those reconciliations and that the reviewers have the necessary background and understanding to ensure that balances are accurate, and that evidence of this review be documented.

View of Management and Planned Corrective Action

Recommendations made by auditors will be implemented.

Transportation District Commission of Hampton Roads

Schedule of Findings and Responses

June 30, 2023

2023-002: Grant Activity (Material Weakness)

Condition

During our testing over grant revenues, expenditures, receivables, and liabilities, we noted that grant activity was not appropriately tracked and reconciled throughout the year. The activity was reconciled at year end, but some of the schedules had to be revised during the audit. Also, there was no evidence of review of the reconciliations by someone other than the preparer. Further, the audit team noted errors in the reconciliations requiring the need for the client to research and revise the reconciliations. As a result, there were several material adjustments that needed to be recorded to adjust and correct balances as a result of discrepancies noted in the audit procedures performed.

Criteria

Grant activity, including receivables, liabilities, revenues and expenditures, should be appropriately tracked and reconciled regularly to ensure accuracy.

Cause

There are continued, lingering issues from the implementation of the new accounting system from the prior year that are still being corrected, combined with staff turnover that resulted in a lack of appropriate tracking over grant activity.

Effect

There is potential that balances related to grants, including receivables, liabilities, revenues, and expenses, could be materially misstated.

Recommendation

We recommend that a system be implemented to track grant activity and compare grant expenditures to grant revenue along with a comparison of cash receipts to reimbursement requests. We also recommend that grant activity be reconciled on a monthly basis and that reconciliations be reviewed by someone other than the preparer and evidence of this review be documented.

View of Management and Planned Corrective Action

Recommendations made by auditors will be implemented.

C – Findings – Commonwealth of Virginia

None noted.

Transportation District Commission of Hampton Roads

Summary Schedule of Prior Audit Findings

June 30, 2023

Finding 2022-001: Internal Control over Financial Reporting (Material Weakness)

Yearly, the Commission's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly Annual Comprehensive Financial Report produced within the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the year-end closing and financial statement audit process, we identified misstatements which were considered material to the financial statement presentation resulting in the adjustment of the Commission's financial records.

We recommend that regular reconciliations be performed over the major general ledger accounts and reviewed by individuals other than those who performed that reconciliations and that the reviewers have the necessary background and understanding to ensure that balances are accurate, and that evidence of this review be documented.

Current Status

Still applicable. See IC-2023-001

Finding 2022-002: Internal Control over Financial Reporting (Material Weakness)

During our testing over grant revenues, expenditures, receivables, and liabilities, we noted that the grant activity was not appropriately tracked and reconciled throughout the year. The activity was reconciled at year end, but some of the schedules had to be revised during the audit. As a result, there were several material adjustments that needed to be recorded to adjust and correct balances as a result of discrepancies noted in the audit procedures performed.

We recommend that a system be implemented to track grant activity and compare grant expenditures to grant revenue along with a comparison of cash receipts to reimbursement requests. We also recommend that grant activity be reconciled on a monthly basis and that the reconciliations be reviewed by someone other than the preparer and that evidence of this review be documented

Current Status

Still applicable. See IC-2023-002

Transportation District Commission of Hampton Roads

Corrective Action Plan

June 30, 2023



CORRECTIVE ACTION PLAN PURSUANT TO FINANCIAL AUDIT JUNE 30, 2023

Item 2023-001

View of Management and Planned Corrective Action:

Recommendations made by auditors have been incorporated and implemented. Account reconciliation completion is now a monthly requirement. Accounts have been assigned to specific accountants, and each is required to complete reconciliations for each month within 30 days of the last day of the month. Training in proper account reconciliation processes and procedures is being provided to all participants and is on-going. Reconciliations are required to include complete detail of the account balance as well as the correction/resolution for each reconciling item. The reconciliations are reviewed by the Assistant Director of Finance and approved by the Director of Finance, and these individuals confer on any corrective entries needed. The timely reconciliation of accounts and correction of any errors found during the reconciliation process will allow the delivery of more accurate financial statements at the beginning of an audit and should also reduce the length of time needed to complete an audit.

Item 2023-002

View of Management and Planned Corrective Action:

Recommendations made by auditors were made policy HRT FIN-201-3 – Grant and Projects Accounting Management Policy, implemented on July 1, 2023, and amended March 13, 2025. Per procedure, HRT is reconciling State grants on a monthly basis. This process requires that all expenses and reimbursements be verified and linked to D365 data. The reconciliation of Federal grants utilizes a standardized template and process to ensure consistency. HRT has engaged the consulting firm of WSP to assist in this process and facilitate the reconciliation of all Federal grants. Monthly expenses will be reviewed and the appropriate amounts drawn down, supported by a template containing all relevant information (e.g., project, grant, FTA PO, expense line-item detail). The corresponding information will be added to the grant reconciliation. Project accountants are receiving weekly training on the reconciliation of both State and Federal grants. All reconciliations are reviewed and approved by the Director of Finance. Training is also underway department-wide to stress the importance of recording both project revenue and expenses in the correct period, which will immediately improve the data quality of grants and project revenues and expenses.

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Date of Corrective Action implementation: March 12, 2025