

Consolidated Financial Statements
Years Ended
June 30, 2011 and 2010



Transportation District
Commission of Hampton Roads



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Transportation District Commission of Hampton Roads

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Patricia P. Woodbury, Vice Chairman

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Kenneth I. Wright
Amy Inman
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Senior Executive Team

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David C. Sullivan *Chief of Staff*
Brian K. Jackson..... *General Counsel*
Henry Li *Chief Financial Officer*
Raymond Amoruso..... *Chief Planning and Development Officer*
Ronald E. Edwards *Chief Safety and Security Officer*
Sibyl Pappas *Chief Environmental and Facilities Officer*
William B. Law *Bus Operations Officer*
James E. Price, Jr. *Rail Operations Officer*

Finance Staff

Barry O. Herring..... *Director of Accounting*
Hien B. Hoang..... *Deputy Director of Accounting*
Sharhonda M. Rush *Grants Accounting Officer*
Brandon K. Singleton *Budget Officer*
Deborah C. Purcell *Director of Procurement*
Paul A. Croston *Director of Revenue Services*

Transportation District Commission of Hampton Roads

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DIXON HUGHES GOODMAN LLP
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Report of Independent Auditors

Commissioners
Transportation District Commission of Hampton Roads

We have audited the accompanying consolidated financial statements of the *Transportation District Commission of Hampton Roads* and Subsidiary, as of and for the year ended June 30, 2011, as listed in the table of contents. This consolidated financial statement is the responsibility of the *Transportation District Commission of Hampton Roads*' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements as of June 30, 2010, were audited by Goodman & Company, LLP, who merged into Dixon Hughes Goodman LLP as of April 1, 2011, and whose report dated December 23, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the 2011 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 2011 consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the *Transportation District Commission of Hampton Roads* as of June 30, 2011, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011, on our consideration of the *Transportation District Commission of Hampton Roads*' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated 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 consolidated 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 consolidated basic financial statements, and other knowledge we obtained during our audit of the consolidated 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.

Our audit was conducted for the purpose of forming an opinion on the 2011 consolidated basic financial statements that collectively comprise the *Transportation District Commission of Hampton Roads*' financial statements taken as a whole. The accompanying information listed as supplementary information and compliance section in the accompanying table of contents, including the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Government and Non-Profit Organization, is presented for the purposes of additional analysis and are not a required part of the consolidated basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2011 consolidated basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2011 consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 consolidated basic financial statements or to the 2011 consolidated basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2011 consolidated basic financial statements as a whole.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2011

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Transportation District Commission of Hampton Roads' (Commission) activities and financial performance provides the reader with an introduction and overview to the consolidated basic financial statements for the year ended June 30, 2011. Following this MD&A are the consolidated basic financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the consolidated basic financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's consolidated basic financial statements, which follow this narrative.

Financial Operations Highlights

Below are highlights of the Commission's activities for fiscal year 2011.

- The increase in net assets for 2011 was \$89 million. The majority of this increase is due to an increase in the acquisition of capital assets by capital grant funding, primarily due to the light rail project and construction of the southside facility.
- Operating revenues of \$16.1 million were 4% or approximately \$600 thousand more than fiscal year 2010, primarily due to increased passenger revenue and an increase in ridership.
- Operating expenses of \$76.5 million (net of depreciation and amortization) increased by 3.6% or 2.7 million due to increased labor and materials costs related to light rail.
- Subsidies and grants of \$60 million were 4.4% or approximately \$2.5 million greater than fiscal year 2010.
- At the end of the fiscal year, unrestricted net assets were \$322,598, an increase of \$281,762 and Commission designated funds for self insurance increased by \$1,902,131 to a favorable balance of \$1,196,616.

Summary of Operations and Changes in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009
Operating revenues	\$ 16,153,654	\$ 15,541,462	\$ 17,675,190
Operating expenses	87,085,265	85,768,098	84,575,490
Operating loss before subsidies and grants	(70,931,611)	(70,226,636)	(66,900,300)
Subsidies and grants	60,555,809	58,020,430	57,263,369
Operating loss before other income (expenses)	(10,375,802)	(12,206,206)	(9,636,931)
Other income (expenses)	(12,229,359)	(8,029,392)	(8,966,101)
Loss before proceeds from capital grants	(22,605,161)	(20,235,598)	(18,603,032)
Proceeds from capital grants	111,771,158	115,595,814	122,492,587
Change in net assets	\$ 89,165,997	\$ 95,360,216	\$ 103,889,555

Financial Position Summary

Net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by \$363.9 million at June 30, 2011.

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

	June 30, 2011	June 30, 2010	June 30, 2009
Assets			
Current assets	\$ 27,717,811	\$ 40,765,754	\$ 46,341,167
Capital assets - net	373,380,997	287,561,205	191,777,953
Other assets	1,588,669	1,916,357	2,010,185
Total assets	402,687,477	330,243,316	240,129,305
Liabilities			
Current liabilities	27,758,598	42,920,434	46,678,962
Long-term liabilities	10,945,000	12,505,000	13,995,000
Total liabilities	38,703,598	55,425,434	60,673,962
Net Assets			
Invested in capital assets	362,464,665	275,482,561	178,363,138
Unrestricted	322,598	40,836	2,273,787
Commission designated for self-insurance	1,196,616	(705,515)	(1,179,259)
Total net assets	\$ 363,983,879	\$ 274,817,882	\$ 179,455,343

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

Revenue

A summary of revenue is as follows:

	2011 Amount	Percent of Total	2010 Amount	Percent of Total	2009 Amount	Percent of Total
Operating						
Passenger fares	\$ 15,329,690	93.9%	\$ 14,751,980	94.4%	\$ 16,953,602	95.6%
Charters and contracts	19,200	0.1%	76,800	0.5%	125,905	0.7%
Vanpool rentals	174,831	1.0%	177,058	1.1%	168,817	0.9%
Auxiliary	291,817	1.8%	269,226	1.7%	276,053	1.5%
Nontransportation	338,116	2.0%	266,398	1.7%	150,813	0.8%
Total operating	16,153,654	98.8%	15,541,462	99.4%	17,675,190	99.5%
Nonoperating						
Gain on sale of capital assets	165,079	1.1%	78,881	0.5%	-	-
Interest income	11,460	0.1%	13,535	0.1%	83,469	0.5%
Total nonoperating	176,539	1.2%	92,416	0.6%	83,469	0.5%
Total revenue	\$ 16,330,193	100.0%	\$ 15,633,878	100.0%	\$ 17,758,659	100.0%

Expenses

A summary of expenses is as follows:

	2011 Amount	Percent of Total	2010 Amount	Percent of Total	2009 Amount	Percent of Total
Operating						
Labor	\$ 31,358,906	31.5%	\$ 30,574,713	32.6%	\$ 29,165,179	31.3%
Fringe benefits	14,841,910	14.9%	14,947,924	16.0%	13,955,007	14.9%
Depreciation and amortization	10,561,359	10.6%	11,956,938	12.7%	10,607,127	11.3%
Materials and supplies	12,123,871	12.2%	11,370,908	12.1%	14,554,686	15.5%
Insurance - net of ordinary recoveries	3,274,247	3.3%	3,765,591	4.0%	3,490,501	3.7%
Purchase of transportation services	8,229,824	8.3%	7,317,820	7.7%	6,700,651	7.2%
Contractual services	4,997,821	5.0%	4,485,524	4.8%	3,806,872	4.1%
Utilities	736,784	0.7%	678,685	0.7%	790,534	0.8%
Other	960,543	1.0%	669,995	0.7%	1,504,933	1.6%
Total operating	87,085,265	87.5%	85,768,098	91.3%	84,575,490	90.4%
Nonoperating						
Loss on sale of capital assets	-	-	-	-	205,541	0.2%
Interest expense	725,536	0.7%	911,415	1.0%	877,316	0.9%
Noncapitalized grant expenditures	11,680,362	11.8%	7,210,393	7.7%	7,966,713	8.5%
Total nonoperating	12,405,898	12.5%	8,121,808	8.7%	9,049,570	9.6%
Total expenses	\$ 99,491,163	100.0%	\$ 93,889,906	100.0%	\$ 93,625,060	100.00%

Summary of Cash Flow Activities

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

	Year Ended June 30, 2011	Year Ended June 30, 2010	Year Ended June 30, 2009
Cash flows from operating activities	\$ (62,733,081)	\$ (58,259,604)	\$ (51,107,536)
Cash flows from noncapital financing activities	50,408,145	59,953,167	68,651,905
Cash flows from capital and related financing activities	12,418,234	(5,864,796)	(17,097,644)
Cash flows from investing activities	11,460	15,857	86,404
Net change in cash and cash equivalents	104,758	(4,155,376)	533,129
Cash and cash equivalents - beginning of period	3,130,908	7,286,284	6,753,155
Cash and cash equivalents - end of period	\$ 3,235,666	\$ 3,130,908	\$ 7,286,284

The Commission's available cash and cash equivalents increased from \$3.1 million at the end of 2010 to \$3.2 million at the end of 2011.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2011, the Commission expended \$95.4 million on capital activities from grant funds. This amount included \$45.3 million for the light rail transportation project, \$8.7 million for buses, \$36.3 million for new the southside facility and \$5.1 million on other capital items.

Capital asset acquisitions and improvements exceeding \$5,000 are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants with matching State grants and local funds.

Debt

At June 30, 2011, the Commission owed \$9,500,000 against its \$20,000,000 revolving line of credit, primarily due to the timing of government receivables.

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

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

At June 30, 2011, the Commission owed \$12,505,000 on these bonds, with \$1,560,000 of principal payments due in fiscal year 2012.

Consolidated Basic Financial Statements

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

Request for Information

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Net Assets

June 30,	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 3,235,666	\$ 3,130,908
Due from governments	20,613,147	34,781,421
Accounts receivable	508,955	426,472
Inventories	2,084,577	2,152,250
Prepaid expenses	1,275,466	274,703
Total current assets	27,717,811	40,765,754
Capital assets - net of accumulated depreciation	373,380,997	287,561,205
Intangible assets - net	1,588,669	1,916,357
	\$ 402,687,477	\$ 330,243,316
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	\$ 9,500,000	\$ 19,550,000
Current portion of long-term debt	1,560,000	1,490,000
Accounts payable	8,208,483	12,022,075
Accrued expenses	2,474,203	3,033,527
Self-insurance liability	2,436,786	2,812,583
Unearned reimbursements	490,744	588,408
Advanced capital contributions	3,088,382	3,423,841
Total current liabilities	27,758,598	42,920,434
Long-term debt	10,945,000	12,505,000
Total liabilities	38,703,598	55,425,434
Net assets		
Investment in capital assets	362,464,665	275,482,561
Unrestricted	322,598	40,836
Commission designated for self-insurance liability	1,196,616	(705,515)
Total net assets	363,983,879	274,817,882
	\$ 402,687,477	\$ 330,243,316

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2011	2010
Operating revenues		
Passenger fares	\$ 15,329,690	\$ 14,751,980
Charters and contracts	19,200	76,800
Vanpool rentals	174,831	177,058
Auxiliary	291,817	269,226
Nontransportation	338,116	266,398
	<u>16,153,654</u>	<u>15,541,462</u>
Operating expenses		
Labor	31,358,906	30,574,713
Fringe benefits	14,841,910	14,947,924
Depreciation and amortization	10,561,359	11,956,938
Materials and supplies	12,123,871	11,370,908
Purchase of transportation services	8,229,824	7,317,820
Contractual services	4,997,821	4,485,524
Insurance - net of ordinary recoveries	3,274,247	3,765,591
Other	960,543	669,995
Utilities	736,784	678,685
	<u>87,085,265</u>	<u>85,768,098</u>
Operating loss before subsidies and grants	(70,931,611)	(70,226,636)
Subsidies and grants	60,555,809	58,020,430
Operating loss before other income (expenses)	<u>(10,375,802)</u>	<u>(12,206,206)</u>
Other income (expenses)		
Interest income	11,460	13,535
Interest expense	(725,536)	(911,415)
Gain on sale of capital assets	165,079	78,881
Noncapitalized grant expenditures	(11,680,362)	(7,210,393)
	<u>(12,229,359)</u>	<u>(8,029,392)</u>
Loss before proceeds from capital grants	(22,605,161)	(20,235,598)
Proceeds from capital grants	<u>111,771,158</u>	<u>115,595,814</u>
Changes in net assets	89,165,997	95,360,216
Net assets - beginning of year	<u>274,817,882</u>	<u>179,457,666</u>
Net assets - end of year	<u>\$ 363,983,879</u>	<u>\$ 274,817,882</u>

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Years Ended June 30,	2011	2010
Cash flows from operating activities		
Receipts from customers and users	\$ 16,071,171	\$ 15,402,339
Payments to suppliers for goods and services	(32,044,012)	(27,967,931)
Payments to employees	(46,760,240)	(45,694,012)
Net cash from operating activities	<u>(62,733,081)</u>	<u>(58,259,604)</u>
Cash flows from noncapital financing activities		
Operating subsidies and grants received	60,458,145	57,603,167
Decrease in note payable - bank	(10,050,000)	2,350,000
Net cash from noncapital financing activities	<u>50,408,145</u>	<u>59,953,167</u>
Cash flows from capital and related financing activities		
Decrease in advanced capital contributions	(335,459)	1,245,198
Interest expense	(725,536)	(911,415)
Acquisition of capital assets and intangible assets	(99,270,144)	(114,385,696)
Noncapitalized grant expenditures	(11,680,362)	(7,210,393)
Proceeds from disposition of capital assets	165,079	78,881
Proceeds from capital grants	125,879,432	117,123,346
Increase in intangible assets	(124,776)	(374,717)
Payments on long-term debt	(1,490,000)	(1,430,000)
Net cash from capital and related financing activities	<u>12,418,234</u>	<u>(5,864,796)</u>
Cash flows from investing activities		
Interest income	11,460	13,535
Decrease in restricted investments	-	2,322
Net cash from investing activities	<u>11,460</u>	<u>15,857</u>
Net change in cash and cash equivalents	104,758	(4,155,376)
Cash and cash equivalents - beginning of year	<u>3,130,908</u>	<u>7,286,284</u>
Cash and cash equivalents - end of year	<u>\$ 3,235,666</u>	<u>\$ 3,130,908</u>

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Years Ended June 30,	2011	2010
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	\$ (70,931,611)	\$ (70,226,636)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	10,561,359	11,956,938
Change in:		
Accounts receivable	(82,483)	(139,123)
Inventories	67,673	115,583
Prepaid expenses	(1,000,763)	2,662
Accounts payable	(412,035)	505,909
Accrued expenses	(559,424)	(171,375)
Self-insurance liability	(375,797)	(303,562)
	<hr/>	<hr/>
Net cash from operating activities	\$ (62,733,081)	\$ (58,259,604)

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

Transportation District Commission of Hampton Roads

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

1. Organization and Nature of Business

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Accounts Receivable

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

Inventories

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

Capital Assets

Capital assets consist of property and equipment stated at cost and are depreciated using the straight-line method based on estimated useful lives of 3 to 40 years. When assets are disposed, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized currently. Substantially all property and equipment were acquired with grant proceeds. The method of, and use of proceeds from, disposition of property and equipment is restricted by the grant requirements.

Maintenance and ordinary repairs are charged to expense as incurred.

Other Assets

Computer software and other intangible assets are stated at cost and are being amortized using the straight-line method over estimated useful lives of 3 to 5 years.

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.

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.

Budgets and Budgetary Accounting

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

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

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

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

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

Estimates

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

Advertising Costs

Advertising costs are charged to operations when incurred. For 2011 and 2010, \$482,090 and \$369,627, respectively, of advertising costs were charged to operations.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through December 14, 2011, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2011 and 2010, the carrying value of the Commission's deposits with banks was \$1,110,100 and \$1,009,324, respectively, and the bank balances were \$4,156,470 and \$1,695,771, respectively. All of the bank balance was insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of such excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. At June 30, 2011 and 2010, the Commission had \$1,747,513 and \$1,744,314, respectively, invested in money market funds. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

Investments

Investment Policy

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

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

Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no 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.

As of June 30, 2011 and 2010, 100% of the Commission's cash equivalents were invested in money market funds and the State Treasurers Local Government Investment Pool.

Concentration of Credit Risk

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

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

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

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

Interest Rate Risk

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

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

Investment Type	Fair Value	Weighted Average Maturity*
2011		
Money market funds - Virginia LGIP	\$ 378,053	-
Other money market funds	1,747,513	-
Total cash equivalents	2,125,566	-
Total bank deposits	1,110,100	-
Total cash and cash equivalents	\$ 3,235,666	
2010		
Money market funds - Virginia LGIP	\$ 377,270	-
Other money market funds	1,744,314	-
Total cash equivalents	2,121,584	-
Total bank deposits	1,009,324	-
Total cash and cash equivalents	\$ 3,130,908	

* *Weighted average maturity in years.*

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.

4. Due From Governments

Government receivables consisted of the following:

	2011	2010
Federal Transit Administration	\$ 12,625,342	\$ 26,218,454
Commonwealth of Virginia	4,159,325	3,714,369
City of Norfolk	3,686,358	4,761,981
City of Virginia Beach	142,122	86,617
	\$ 20,613,147	\$ 34,781,421

5. Inventories

Inventories consisted of the following:

	2011	2010
Bus and service vehicle parts	\$ 1,865,827	\$ 1,992,027
Fuel and oil	218,750	160,223
	\$ 2,084,577	\$ 2,152,250

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 7,749,522	\$ 1,270,856	\$ -	\$ 9,020,378
Construction in process:				
Light rail cars	15,428,505	-	-	15,428,505
Light rail infrastructure	184,230,453	45,019,874	-	229,250,327
Tools/equipment	1,272,767	320,378	-	1,593,145
Southside facility	20,727,056	-	(20,727,056)	-
	<u>229,408,303</u>	<u>46,611,108</u>	<u>(20,727,056)</u>	<u>255,292,355</u>
Capital assets being depreciated				
Buses	96,728,430	8,770,713	(11,836,972)	93,662,171
Buildings and improvements	23,324,690	57,193,184	(25,380)	80,492,494
Para transit & service vans	8,349,636	39,700	(2,107,058)	6,282,278
Pedestrian ferries and docks	6,715,494	6,000	(218,184)	6,503,310
Fare collection equipment	10,325,104	371,360	(115,580)	10,580,884
Shop and garage equipment	3,822,409	1,358,917	(901,740)	4,279,586
Radio and communications equipment	8,904,819	492,200	-	9,397,019
Management information system	4,814,240	415,274	(49,924)	5,179,590
Furniture and office equipment	1,814,724	-	(12,043)	1,802,681
Bus shelters and signs	2,591,920	-	(8,550)	2,583,370
Service vehicles	752,178	910,542	(32,405)	1,630,315
Supervisory vehicles	656,682	-	(56,053)	600,629
	<u>168,800,326</u>	<u>69,557,890</u>	<u>(15,363,889)</u>	<u>222,994,327</u>
Less - accumulated depreciation	<u>(110,647,424)</u>	<u>(10,108,895)</u>	<u>15,850,634</u>	<u>(104,905,685)</u>
	<u>58,152,902</u>	<u>59,448,995</u>	<u>486,745</u>	<u>118,088,642</u>
	<u>\$ 287,561,205</u>	<u>\$ 106,060,103</u>	<u>\$ (20,240,311)</u>	<u>\$ 373,380,997</u>

7. Unearned Reimbursements - Net

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

	2011	2010
City of Chesapeake	\$ (136,061)	\$ (211,859)
City of Hampton	(47,540)	357,188
City of Newport News	(34,465)	366,742
City of Norfolk	26,951	(469,126)
City of Portsmouth	904,962	723,005
City of Suffolk	125,934	53,212
City of Virginia Beach	(349,037)	(230,754)
	<u>\$ 490,744</u>	<u>\$ 588,408</u>

8. Note Payable - Bank

The Commission has revolving lines of credit of \$6,000,000 and \$13,000,000, which mature January 31, 2013 and 2012, respectively. Advances on the lines of credit were collateralized by the pledging of all revenues, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 77% of the London Interbank Offered Rate (LIBOR) plus 166 basis points with a floor of 2%, (2.00% and 2.05% at June 30, 2011 and 2010, respectively). At June 30, 2011 and 2010, the Commission owed \$9,500,000 and \$19,550,000, respectively, against the line of credit.

9. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	<u>2011</u>	<u>2010</u>
Balance - July 1	\$ 13,995,000	\$ 15,425,000
Increases	-	-
Decreases	(1,490,000)	(1,430,000)
Balance - June 30	<u>\$ 12,505,000</u>	<u>\$ 13,995,000</u>
Amount due within one year	<u>\$ 1,560,000</u>	<u>\$ 1,490,000</u>

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

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

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

Debt service is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,560,000	\$ 514,730
2013	1,630,000	441,105
2014	1,705,000	361,966
2015	1,780,000	284,176
2016	1,860,000	205,642
2017	3,970,000	154,321
	<u>\$ 12,505,000</u>	<u>\$ 1,961,940</u>

10. Operating Lease

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2011 and 2010, lease expense was \$436,152 and \$448,334, respectively.

Future minimum lease payments under these leases are as follows:

2012	\$ 85,000
2013	85,000
2014	87,550
2015	60,118
	<u>\$ 317,668</u>

11. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	<u>2011</u>	<u>2010</u>
Federal	\$ 24,269,900	\$ 22,794,923
State	10,979,865	11,963,044
Local	25,306,044	23,262,463
	<u>\$ 60,555,809</u>	<u>\$ 58,020,430</u>

12. Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2011 and 2010, contributions received from local governments exceeded amounts expended by \$3,088,382 and \$3,423,841, respectively, and are shown in the accompanying consolidated statements of net assets as advanced capital contributions.

13. **Defined Benefit Pension Plans**

Prior to the merger of TTDC and PTDC, employees were covered under various pension plans. Salaried employees of the TTDC and PTDC were covered under the Virginia Retirement System and the PTDC Defined Contribution Retirement Plan, respectively. Employees subject to union bargaining agreements of the TTDC and PTDC were covered under the Transit Employees of Tidewater Disability and Retirement Allowance Plan and the Retirement Plan of Hampton Roads Transportation District Commission, respectively. All existing employees, as of the date of the merger, continue to maintain participation in the aforementioned plans. Salaried employees hired after the merger are covered under the Virginia Retirement System. Employees subject to union bargaining agreements, hired after the merger, continue to be covered under their respective plans, depending on their work locations. Summary descriptions and other information for each of the aforementioned plans follow:

A. Virginia Retirement System

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

a) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the County/City/Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Commission's contribution rate for the years ended June 30, 2011 and 2010, was 5.99% and 4.07%, respectively.

b) Annual Pension Cost

For the years ended June 30, 2011 and 2010, the Commissions annual pension cost of \$716,508 and \$456,217, respectively was equal to the Commission's required and actual contributions.

Three-Year Trend Information for County/City/Town

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2011	\$716,508	100%	\$ -0-
June 30, 2010	\$456,217	100%	\$ -0-
June 30, 2009	\$161,122	100%	\$ -0-

The FY 2011 required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2010 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

c) Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 92.65% funded. The actuarial accrued liability for benefits was \$23,144,373, and the actuarial value of assets was \$21,442,564, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,701,809. The covered payroll (annual payroll of active employees covered by the plan) was \$11,424,021, and ratio of the UAAL to the covered payroll was 14.90%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

B. Transit Employees of Tidewater Disability and Retirement Allowance Plan

a) Plan Description

Transit Management Company (Subsidiary), a wholly owned subsidiary of the Commission, contributes to the Transit Employees of Tidewater Disability and Retirement Allowance Plan (Plan) which covers principally those employees subject to the Commission's union bargaining agreement who work in Norfolk, Portsmouth, Chesapeake, and Suffolk. The Commission issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Transportation District Commission of Hampton Roads.

Transit employees participate in the Plan after 60 days of service with the Subsidiary. Normal pension benefits are available for participants who are age 65 with 10 years of credited service, age 61-65 with sufficient period of credited service so that the total of age and length of credited service is 85 or more, or any age with completion of 25 years of credited service. Early retirement is available at age 55 with 10 years of credited service. The amount of pension paid at early retirement is the normal pension reduced by .42% for each full month in the period between the participant's date of retirement and the first date on which the participant would have been eligible for an unreduced retirement benefit had they continued in employment. Death and disability benefits are also provided by the Plan.

b) Funding Policy

The contribution requirements of employees and the Commission are established and may be amended by the terms of the collective bargaining agreement between the Commission and the Union. That agreement provides that employees are required to contribute 3% of compensation received during any month, with a minimum contribution of \$10, while the employer contributes an additional sum equal to 10% of compensation paid to the participant during the month, with a minimum contribution of \$40.

c) Annual Required Contributions (ARC)

For the years ended June 30, 2011 and 2010, the Commission's actual contribution was \$1,378,191 and \$1,383,629, respectively. The required contribution was determined as part of the December 31, 2010, actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 7.25%, and (b) projected salary increases of 7.75% for the first years of employment and 3.75% thereafter.

d) Schedule of Employer Contributions

Year End	Annual Required Contribution (ARC)	Percentage of ARC Cost Contributed	Net Pension Obligation (Benefit)
December 31, 2010	\$ 1,108,628	124%	\$ (269,563)
December 31, 2009	\$ 1,446,122	96%	\$ 62,493
December 31, 2008	\$ 1,042,819	122%	\$ (224,338)

e) Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
December 31, 2010	\$ 24,820,832	\$ 34,468,882	\$ (9,648,050)	72.01%	\$ 13,781,910	(70.01%)
December 31, 2009	\$ 24,323,006	\$ 32,587,554	\$ (8,264,548)	74.64%	\$ 12,72,215	(64.71%)
December 31, 2008	\$ 21,111,994	\$ 30,740,682	\$ (9,628,688)	68.68%	\$ 13,267,177	(72.58%)

f) Notes to Schedules of Employer Contributions and Funding Progress - Transit Plan

The information presented in the schedules of employer contributions and funding progress was determined as part of actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	1-29 Years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return	7.25%
Projected salary increases	7.75% for the first five years of employment; 3.75% thereafter

C. Retirement Plan of Hampton Roads Transportation District Commission

a) Plan Description

Prior to the merger, the Peninsula Transportation District Commission (PTDC) established a single-employer defined benefit retirement plan covering employees who are members of the bargaining unit represented by Amalgamated Transit Union, Local 1177 (Union). The Commission administers the plan that provides retirement, disability and death benefits to plan members and beneficiaries. The Commission issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Transportation District Commission of Hampton Roads.

b) Funding Policy

The contribution requirements of employees and the Commission are established and may be amended by the terms of the collective bargaining agreement between the Commission and the Union. That agreement provides that employees are required to contribute 2.5% of their annual salary, while the Commission is required to contribute 6% of annual covered payroll.

c) Annual Required Contributions (ARC)

For the years ended June 30, 2011 and 2010, the Commission's actual contributions to the plan were \$439,777 and \$459,495, respectively. The annual required contribution for the current year was determined as part of the July 1, 2010, actuarial valuation using the entry age normal cost method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and projected salary increases of 7.75% for the first five years of employment; 3.75% thereafter.

d) Schedule of Employer Contributions

<u>Fiscal Year End</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Cost Contributed</u>	<u>Net Pension Obligation (Benefit)</u>
June 30, 2011	\$ 653,198	67%	\$ 213,431
June 30, 2010	\$ 584,275	79%	\$ 124,780
June 30, 2009	\$ 433,915	101%	\$ (3,007)

e) Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Over (Under) Funded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Over (Under) Funded AAL as a Percentage of Covered Payroll</u>
June 30, 2010	\$ 15,945,080	\$ 16,414,389	\$ (469,309)	97%	\$ 7,329,617	6%
June 30, 2009	\$ 15,825,238	\$ 15,523,412	\$ 301,826	102%	\$ 7,658,250	4%
June 30, 2008	\$ 16,042,183	\$ 14,585,817	\$ 1,456,366	110%	\$ 7,773,590	19%

f) Notes to Schedules of Employer Contributions and Funding Progress - PTDC Plan

The information presented in the schedules of employer contributions and funding progress was determined as part of actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2010
Actuarial cost method	Entry Age Normal
Amortization Period	9 years remaining as of July 1, 2010
Asset valuation method	The actuarial value is market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual market return and the expected return (at the actuarially assumed rate) on the market value, and is recognized ratably over a four-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	7.75% for the first five year of employment 3.75%

D. Peninsula Transportation District Commission Defined Contribution Retirement Plan

Prior to the merger, the Peninsula Transportation District Commission established a defined contribution retirement plan covering salaried employees. In accordance with the plan, employees are required to contribute 2% of compensation, with an option to contribute up to a maximum of an additional 3% of compensation. The Commission is required to contribute 4% of salaried employee compensation, plus a dollar-for-dollar match of optional employee contributions. In April 2009, this plan was terminated and all assets were transferred to Virginia Retirement System. After this termination, the employees covered by this plan will be covered by Virginia Retirement System.

14. Compensated Absences

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

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

All nonunion employees may accumulate annual leave up to a maximum of 320 hours to be carried into any one calendar year or to be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2011 and 2010, the Commission has accrued \$798,537 and \$762,876, respectively, for compensated absences.

15. Contingencies

Self-Insurance

The Commission is self-insured for a portion of its risks associated with general liability for the first \$500,000 of each occurrence. An external insurance policy provides coverage over the specified limit up to \$10,000,000 per occurrence.

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

Workers' Compensation Insurance

The Commission is also self-insured for workers' compensation. To minimize the potential for excessive claims, the Commission obtained excess workers' compensation insurance. Under this agreement, the Commission is self-insured for the first \$400,000 of each occurrence. An external insurance policy provides coverage over the specified limit up to \$1,000,000 per occurrence.

Federally Assisted Grant Programs

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

16. Light Rail Project

In late 2007, the Commission received funding commitments to support the construction of a \$232 million project to build a 7.4 mile light rail system from downtown Norfolk to Virginia Beach, Virginia. Funding for the project will be supported by \$128 million in federal transit funds, \$32 million from state funds, \$33 million with City of Norfolk funds and \$39 million from other federal sources. As of December 2008, cost estimates for the light rail project were to approximate \$288 million. The additional funding consisted of an additional \$35 million of state funds and \$21 million in City of Norfolk funds.

In late summer 2009, management became aware of factors that would increase the project cost beyond the \$288 million. On February 1, 2010, a meeting of the light rail project management team was convened. The team was directed to prepare a final cost at completion as well as projected date for revenue service. On February 18, 2010, the Commission received a final cost-to-complete report which placed the costs of the project at approximately \$338.2 million. Funding for the project will be supported by \$191.8 million in federal sources, \$69.8 million from state funds, and \$39.6 from the City of Norfolk. The City of Norfolk is actively pursuing additional funding from its State and Federal partners for the remaining \$37 million. In the event that these future potential funding sources fail to materialize, the City of Norfolk is committed, per the FFGA (Full Funding Grant Agreement), to provide the necessary funding to complete the project.

At June 30, 2011, the Commission had expended approximately \$285 million for this project not including \$8.3 million contributed directly by the City of Norfolk.

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Transportation District Commission of Hampton Roads

Supplementary Information

Year Ended June 30, 2011

Transportation District Commission of Hampton Roads

**Enterprise Fund - Transit Activity
Schedule of Revenues - Actual and Budgeted**

Year Ended June 30, 2011

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	\$ 15,329,690	\$ 15,773,389	\$ (443,699)
Charters and contracts	19,200	-	19,200
Vanpool rentals	174,831	145,263	29,568
Auxiliary	291,817	200,275	91,542
Nontransportation	338,116	260,666	77,450
Total revenues	16,153,654	16,379,593	(225,939)
Subsidies and grants			
Municipal subsidies	25,306,044	26,038,719	(732,675)
State operating subsidies	10,979,865	10,807,700	172,165
Federal operating grants	24,269,900	27,815,649	(3,545,749)
Total subsidies and grants	60,555,809	64,662,068	(4,106,259)
Total revenues, subsidies and grants	\$ 76,709,463	\$ 81,041,661	\$ (4,332,198)

**Reconciliation to revenues shown in the consolidated statement of
revenues, expenses and changes in net assets is as follows:**

As reflected in the consolidated statement of revenues,
expenses and changes in net assets

Operating revenues	\$ 16,153,654
Subsidies and grants	60,555,809
	<u>\$ 76,709,463</u>

Transportation District Commission of Hampton Roads

*Enterprise Fund - Transit Activity
Schedule of Expenses - Actual and Budgeted*

Year Ended June 30, 2011

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	\$ 46,200,816	\$ 48,183,660	\$ (1,982,844)
Materials and supplies	12,123,871	12,354,573	(230,702)
Insurance - net of ordinary recoveries	5,176,378	5,963,723	(787,345)
Purchase of transportation services	8,229,824	7,355,046	874,778
Contractual services	4,997,821	4,955,686	42,135
Utilities	736,784	1,055,927	(319,143)
Other	960,543	1,173,046	(212,503)
Total transit activity expenses before depreciation and amortization	\$ 78,426,037	\$ 81,041,661	\$ (2,615,624)

**Reconciliation to expenses shown in the consolidated statement of
revenues, expenses and changes in net assets is as follows:**

Total transit activity expenses before depreciation	\$ 78,426,037
Depreciation and amortization	10,561,359
Self insurance net increase in net assets	<u>(1,902,131)</u>
	<u>\$ 87,085,265</u>

Transportation District Commission of Hampton Roads

Compliance Section

Year Ended June 30, 2011



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

Commissioners

Transportation District Commission of Hampton Roads

We have audited the consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary (Commission) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ***Transportation District Commission of Hampton Roads'*** internal control over financial reporting as a basis for designing our auditing procedures 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 ***Transportation District Commission of Hampton Roads'*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ***Transportation District Commission of Hampton Roads'*** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as Finding 2011-1.

Compliance and Other Matters

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

We noted certain matters that we have reported to Budget and Finance Committee of the Commission in a separate letter dated October 24, 2011.

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Commission, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2011



***Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133***

Commissioners
Transportation District Commission of Hampton Roads

Compliance

We have audited the compliance of the ***Transportation District Commission of Hampton Roads*** and Subsidiary, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The ***Transportation District Commission of Hampton Roads***' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***Transportation District Commission of Hampton Roads***' management. Our responsibility is to express an opinion on the ***Transportation District Commission of Hampton Roads***' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***Transportation District Commission of Hampton Roads***' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***Transportation District Commission of Hampton Roads***' compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal over compliance is a deficiency, or combination of control deficiencies, in internal control compliance, such that there is more than a reasonable possibility that material noncompliance with type of compliance requirement of a federal program will not be prevented or detected by the ***Transportation District Commission of Hampton Roads***' internal control on a timely basis.

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

This report is intended solely for the information and use of the ***Transportation District Commission of Hampton Roads***, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2011

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number	Year	Federal Catalogue Number	Total Expenditures
Department of Transportation			
Direct Payments			
Federal Transit Administration Capital Improvements Grants:			
VA 03-0082	2002	20.500	133,886
VA 03-0107	2007	20.500	135,490
VA 05-0045	2010	20.500	13,805
VA 04-0035	2008	20.500	12,399,290
VA 04-0050	2011	20.500	1,250,053
VA 05-0039	2008	20.500	1,457
VA 05-0040	2009	20.500	(15,698)
VA 37-X014	2007	20.516	511,313
VA 39-0002	2010	20.500	979,148
VA 57-X001	2007	20.521	156,321
VA 58-0001	2010	20.500	2,160,000
VA 66-X004	2010	20.500	9,525,277
VA 90-X189	2000	20.500	93,362
VA 90-X262	2005	20.500	446,249
VA 90-X282	2006	20.500	79,045
VA 90-X304	2007	20.500	408,687
VA 90-X320	2008	20.500	125,414
VA 90-X344	2009	20.500	2,261,002
VA 90-X359	2010	20.500	311,823
VA 95-X001	2007	20.500	16,287,582
VA 95-X014	2009	20.500	9,232,559
VA 95-X063	2009	20.500	2,841,292
VA 95-X064	2010	20.500	2,581,108
VA 95-X070	2010	20.500	8,443,722
VA 95-X081	2010	20.500	6,868,692
VA 96-X003	2009	20.500	74,090
			8,537,461
Total all capital improvement grants			85,842,430
Environmental Protection Agency			
Virginia Clean Cities	2010	66.039	475,933
Department of Homeland Security			
2007-RL-T7-0017	2007	97.075	871
Urban Area Security Initiative Grant	2008	97.008	24,950
			25,821
Passed through from Department of Rail and Public Transportation			
47008-09 Regional TDM program Traffic	2011	20.507	83,760
47010-04 Regional TDM program Traffic	2010	20.507	765,590
Passed through from Southeastern Virginia Planning District Commission			
Federal Transit Administration Technical Studies Grant and Section 8 Grant	2010	20.507	174,636
Total Department of Transportation			\$ 87,368,170

* Represents a major program to the Transportation District Commission of Hampton Roads.

See accompanying notes to schedule of expenditures of federal awards.

Transportation District Commission of Hampton Roads

Notes to Schedule of Expenditures of Federal Awards

June 30, 2011

1. General

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

2. Basis of Accounting

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

Transportation District Commission of Hampton Roads

Schedule of Findings and Questioned Costs

June 30, 2011

1. **Summary of Auditors' Results**

- a. An unqualified opinion was issued on the consolidated financial statements.
- b. One significant deficiency was noted for internal control over financial reporting.
- c. The audit did not disclose any noncompliance material to the consolidated financial statements.
- d. There were no significant deficiencies noted in internal control over major federal programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit disclosed one audit finding as reported below.
- g. Major programs are:
 - i. Capital Improvement Grants (20.500)
 - ii. Capital and Operating Assistance Formula and Technical Studies Grants (20.507)
- h. The dollar threshold used to distinguish between Type A and Type B programs is \$2,621,045.
- i. The Commission did qualify as a low-risk auditee.

2. **Findings Relating to the Consolidated Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards**

Finding 2011-1

Condition: Accounts payable and property and equipment were materially misstated. Accounts payable was understated by \$999,999 as a result of PeopleSoft system inadvertently removing a payable from its system. The property and equipment account balance was overstated by approximately \$1.1 million due to duplicate invoices being posted.

Criteria: Internal controls should be in place to ensure monthly reconciliations of accounts payable reports and property and equipment additions to the general ledger.

Effect: As a result of these reconciliations not being prepared on a monthly basis, several account balances could be misstated.

Recommendation: We recommend that procedures be established to ensure that the issue within PeopleSoft is corrected and there is manual reconciliation performed monthly to ensure accuracy.

Commission Response: The Commission concurs with the finding. We will update our account reconciliation procedures within 30 days to ensure that each is prepared on a monthly basis. Further, since the external audit was completed several staff changes have been made to strengthen HRT's financial management team and to use each person's talents more effectively. We have created the Controller and Assistant Controller positions to increase accountability and oversight over standard monthly accounting processes. The Controller is overseeing the Accounts Payable function and is currently responsible for reviewing and approving the monthly account reconciliations. The Assistant Controller is now responsible for the accounting of the Commission's Fixed Assets. We are confident that these changes will insure the appropriate control over our reconciliation processes and safeguard against misstatements of our financial position in the future.

3. Findings and Questioned Costs for Federal Awards

None

4. Status of Prior Year Findings

Finding 2010-1

Condition: Complete reconciliations of operating cash are not being prepared on a monthly basis.

Corrective action: All cash reconciliations are completed on a monthly basis.