HAMPTON ROADS TRANSIT

Comprehensive Annual

FINANCIAL REPORT

Transportation District Commission of Hampton Roads

Years Ended

June 30, 2013 & 2012

Transportation District Commission of Hampton Roads

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2013 and 2012

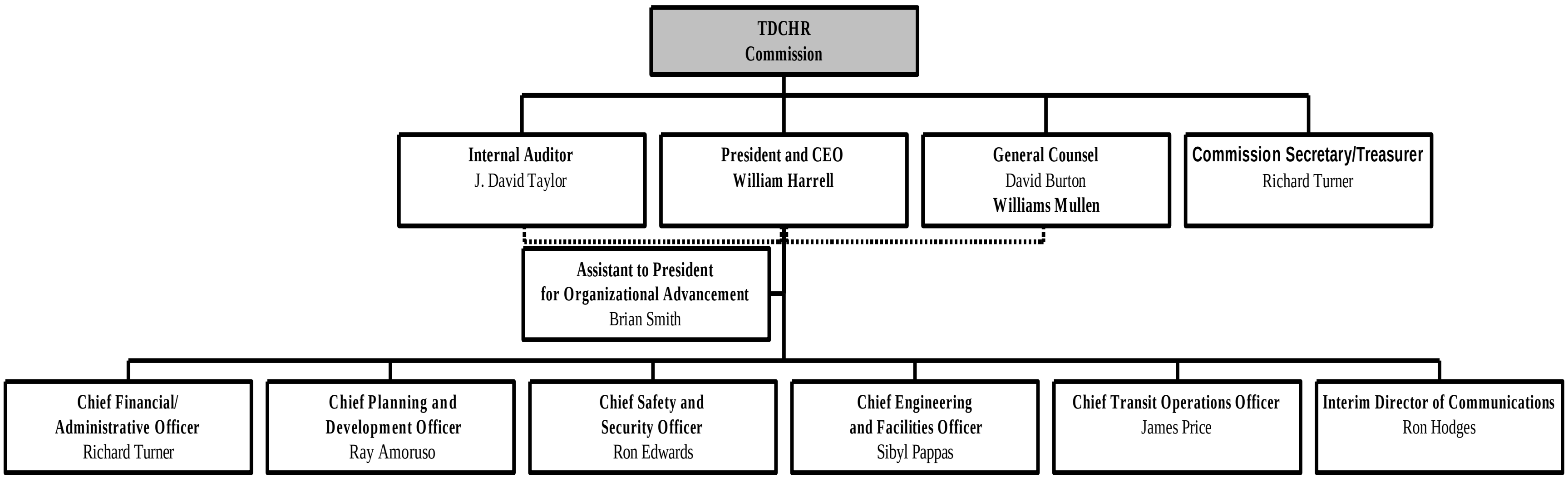
Prepared by Department of Finance

Sylvia L. Shanahan, Controller

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Introductory Section

Transportation District Commission of Hampton Roads
Organizational Chart
June 30, 2013



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

Transportation District Commission of Hampton Roads

Commissioners

Richard W. West, Chairman
Kenneth Wright, Vice Chairman

Betsy Atkinson
Douglas W. Fuller
Charles B. Hunter
Allen C. Tanner, Jr.
Barclay C. Winn
Patricia Woodbury

Thelma Drake
Robert R. Harper, Jr.
Will J. Moffett
James P. Toscano
James L. Wood

Senior Executive Team

William E. Harrell.. *President and Chief Executive Officer*
Brandon K. Singleton................ ....*Interim Chief Financial and Administrative Officer*
Raymond Amoruso ....*Chief Planning and Development Officer*
Ronald E. Edwards ....*Chief Safety and Security Officer*
Sibyl Pappas............... ....*Chief Environmental and Facilities Officer*
James E. Price, Jr. ....*Chief Transit Operations Officer*
Ron Hodges.................. ....*Interim Director of Communications*

Finance Staff

Sylvia L. Shanahan ....*Controller*
Debbie L. Ball..*Assistant Controller*
Hien Hoang..*Finance Manager*
Angela Neselrod...*Finance Manager*
Brandon K. Singleton.. *Director of Budget and Financial Analysis*
Dyanne A. Sampson..*Director of Procurement*
Paul A. Croston..*Director of Revenue Services*

HAMPTON ROADS TRANSIT

December 12, 2013

Chairman and members of the Commission

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Transportation District Commission of Hampton Roads (Commission) for the fiscal year ended June 30, 2013. State law requires the Commission to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with Government Auditing Standards by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and the report does comply with state law and guidelines and of the Auditor of Public Accounts of the Commonwealth of Virginia.

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

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

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

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

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Profile of the Commission

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

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

HRT operates a fleet of 281 buses for fixed-route service. Its' bus fleet consists of standard 29-foot to 40-foot transit coaches and diesel-electric hybrid buses. The current peak requirement of 220 vehicles occurs in the summer season, with the non-seasonal peak requirement being 204 vehicles. HRT also has a fleet of 41 vans and cutaways, and 59 vehicles that are provided by a paratransit contractor. HRT's ferry operation uses a fleet of three vessels. HRT also owns 9 light rail vehicles and 73 TRAFFIX/TDM Vans.

Current services include the following routes:

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

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

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

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

Organizational Structure

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

Economic Condition

HRT serves six cities that are a part of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). The Hampton Roads metropolitan area has a population of 1.6 million people and is ranked as the eight-largest metro area in the Southeast US and the second largest metro area between Atlanta and Washington, DC. Hampton Roads has a stable and increasingly diverse population, intricate and unique economy with stable employment, effective but aging transportation system, and favorable education attainment levels.

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

Stagnant federal spending, especially by the Department of Defense (DOD), pushed down our annual real rate of growth to only .94 percent in 2013. This is less than half the national rate of growth and about a third less than the Commonwealth of Virginia economic growth rate. Job recovery in Hampton Roads in recent years has trailed both Virginia and the United States.

Employment in the local MSA area increased from 778,710 in June 2012 to 791,477 as of June 2013. Virginia's employment in June 2012 was 3,950,596 and increased to 3,996,631 as of June 2013. The unemployment rate has an inverse effect from the employment. As of June 2012 the unemployment rate was 6.9 in the local MSA and 6.0 for the state of Virginia in comparison to 6.3 for the local MSA and 5.5 for the state at June 2013.

Budget and Funding

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

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

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

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

Long-Term Planning

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

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

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

Completed Projects

- The Tide Light Rail Project.
- 18th Street Southside Facility Complex.
- Renovation of Hampton and Newport News Transit Centers.

Projects Underway

- Construction of permanent Downtown Norfolk Transit Center by the City of Norfolk in cooperation with HRT and the Virginia Department of Rails and Public Transportation (VDRPT). This facility will include a permanent enclosed building for customers and provide connections for 16 bus routes in the heart of downtown Norfolk.
- Study of HRT Fare Structure and revamping of HRT's 2008 Fare Policy. Potential fare increase for FY 2015.
- Disposal of excess property - 1500 Monticello Avenue (Old Southside Administration building).

Future Projects

- Rehabilitation and renovation of 3400 Victoria Blvd Administrative and Operating Division in Hampton.
- Relocation of Virginia Beach Operating Division to a new and larger site that will be in partnership with the City of Virginia Beach. The site will be provided by Virginia Beach and the City and HRT will share fueling and expense washing facilities.
- The Virginia Beach Transit Extension Study (VBTES) project will seek approval to enter into New Starts Project Development phase and is expected that an Environmental Record of Decision will be issued for the locally preferred Alternative and that a funding plan will be in place to extend Light Rail into the city of Virginia Beach.

Acknowledgements

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

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

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

Respectfully submitted,

Richard Turner
Chief Financial and Administrative Officer/
Commission Treasurer

Sylvia L. Shanahan
Controller

Financial Section

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditor's Report

Commissioners
Transportation District Commission of Hampton Roads

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, issued by the Comptroller of the United States. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of ***Transportation District Commission of Hampton Roads***, as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the Schedule of Revenue - Actual and Budgeted on page 31, the Schedule of Expenses - Actual and Budgeted on page 32, and the Schedule of Funding Progress - Pension Plans on page 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2013, on our consideration of the ***Transportation District Commission of Hampton Roads'*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***Transportation District Commission of Hampton Roads'*** internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 10, 2013

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, 2013. 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 2013.

- The decrease in net position for 2013 was $23.5 million. The majority of this decrease is due to a decrease in the acquisition of capital assets by capital grant funding.
- Operating revenues of $16 million were 7% or approximately $ 1.2 million less than fiscal year 2012, primarily due to the effect of the Gopass 365 discount fare program.
- Operating expenses of $118 million (net of depreciation and amortization) increased by 4% or $4.8 million due to increased costs related to light rail services.
- Subsidies and grants of $71 million were .3% or approximately $237,000 thousand greater than fiscal year 2012.
- At the end of the fiscal year, unrestricted net position were $(2,396,171) a decrease of $2,754,526 and Commission designated funds for self-insurance increased by $187,460 to a balance of $1.1 million.

Summary of Operations and Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011
Operating revenues	$ 16,427,275	$ 17,668,453	$ 16,153,654
Operating expenses	118,668,472	113,567,777	87,085,265
Operating loss before subsidies and grants	(102,241,197)	(95,899,324)	(70,931,611)
Subsidies and grants	71,304,102	71,066,933	60,555,809
Operating loss before other income (expenses)	(30,937,095)	(24,832,391)	(10,375,802)
Other income (expenses)	(8,404,768)	(11,927,567)	(12,229,359)
Loss before proceeds from capital grants	(39,341,863)	(36,759,958)	(22,605,161)
Proceeds from capital grants	15,764,870	44,962,979	111,771,158
Change in net position	$ (23,576,993)	$ 8,203,021	$ 89,165,997

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by $ 348.6 million at June 30, 2013.

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

	June 30, 2013	June 30, 2012	June 30, 2011
Assets			
Current assets	$ 21,279,415	$ 28,095,524	$ 27,717,811
Capital assets - net	358,553,259	380,803,227	373,380,997
Other assets	634,198	1,024,158	1,588,669
Total assets	380,466,872	409,922,909	402,687,477
Liabilities			
Current liabilities	24,246,965	28,421,009	27,758,598
Long-term liabilities	7,610,000	9,315,000	10,945,000
Total liabilities	31,856,965	37,736,009	38,703,598
Net Position			
Invested in capital assets	349,872,457	370,882,384	362,464,665
Unrestricted	(2,396,171)	358,355	322,598
Commission designated for self-insurance	1,133,621	946,161	1,196,616
Total net position	$ 348,609,907	$ 372,186,900	$ 363,983,879

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

Revenues

A summary of revenues is as follows:

	2013 Amount	Percent of Total	**2012** Amount	Percent of Total	**2011** Amount	Percent of Total
Operating						
Passenger fares	$ 15,059,102	91.5%	$ 16,563,517	93.3%	$ 15,329,690	93.9%
Charters and contracts	18	***	13,742	0.1%	19,200	0.1%
Vanpool rentals	177,911	1.1%	170,138	1.0%	174,831	1.0%
Auxiliary	1,005,820	6.2%	731,827	4.1%	291,817	1.8%
Nontransportation	184,424	1.0%	189,229	1.0%	338,116	2.0%
Total operating	16,427,275	99.8	17,668,453	99.5%	16,153,654	98.8%
Nonoperating						
Gain on sale of capital assets	25,093	0.2%	84,969	0.4%	165,079	1.1%
Interest income	4,760	***	3,109	0.1%	11,460	0.1%
Total nonoperating	29,853	0.20%	88,078	0.5%	176,539	1.2%
Total revenues	$ 16,457,128	100.0%	$ 17,756,531	100.0%	$ 16,330,193	100.0%

Expenses

A summary of expenses is as follows:

	2013 Amount	Percent of Total	2012 Amount	Percent of Total	2011 Amount	Percent of Total
Operating						
Labor	$ 37,029,933	29.9%	$ 36,459,948	29.0%	$ 31,358,906	31.5%
Fringe benefits	15,935,969	12.9%	15,919,415	12.7%	14,841,910	14.9%
Depreciation and amortization	30,582,193	24.7%	23,535,796	18.7%	10,561,359	10.6%
Materials and supplies	14,079,082	11.4%	14,309,506	11.4%	12,123,871	12.2%
Insurance - net of ordinary recoveries	4,308,865	3.5%	7,196,743	5.7%	3,274,247	3.3%
Purchase of transportation services	8,320,274	6.7%	8,084,487	6.4%	8,229,824	8.3%
Contractual services	5,765,101	4.6%	5,665,506	4.5%	4,997,821	5.0%
Utilities	1,361,074	1.1%	1,312,737	1.0%	736,784	0.7%
Other	1,285,981	0.8%	1,083,639	1.0%	960,543	1.0%
Total operating	118,668,472	95.7%	113,567,777	90.4%	87,085,265	87.5%
Nonoperating						
Interest expense	631,645	.51%	702,559	0.6%	725,536	0.7%
Noncapitalized grant Expenditures	7,802,976	3.8%	11,313,086	9.0%	11,680,362	11.8%
Total nonoperating	8,434,621	4.31%	12,015,645	9.6%	12,405,898	12.5%
Total expenses	$ 127,103,093	100.0%	$ 125,583,422	90.4%	$ 99,491,163	87.5%

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, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash flows from operating activities	$ (75,966,232)	$ (73,881,614)	$ (62,733,081)
Cash flows from noncapital financing activities	72,904,102	71,066,933	50,408,145
Cash flows from capital and related financing activities	4,891,097	1,996,284	12,418,234
Cash flows from investing activities	4,760	3,109	11,460
Net change in cash and cash equivalents	1,833,727	(815,228)	104,758
Cash and cash equivalents - beginning of period	2,420,378	3,235,666	3,130,908
Cash and cash equivalents - end of period	$ 4,254,105	$ 2,420,438	$ 3,235,666

The Commission's available cash and cash equivalents increased from $2.4 million at the end of 2012 to $4.3 million at the end of 2013.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2013, the Commission expended $ 4.8 million on capital activities from grant funds. This amount included $ 2.6 million for buses and $ 2.2 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, 2013, the Commission owed $11,100,000 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, 2013, the Commission owed $10,945,000 on these bonds, with $1,630,000 of principal payments due in fiscal year 2013.

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 and Administrative Officer, Hampton Roads Transit, 3400 Victoria Boulevard, Hampton, VA 23661.

Consolidated Financial Statements

Transportation District Commission of Hampton Roads

Consolidated Statements of Net Position

June 30,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 4,254,105	$ 2,420,378
Due from governments	11,149,996	20,291,451
Accounts receivable	616,799	754,205
Inventories	3,335,430	2,536,354
Prepaid expenses	1,923,085	2,093,135
Total current assets	21,279,415	28,095,523
Capital assets - net of accumulated depreciation	358,553,259	380,803,227
Intangible assets - net	634,198	1,024,159
	$ 380,466,872	$ 409,922,909
Liabilities and Net Position		
Current liabilities		
Notes payable - bank	$ 11,100,000	$ 9,500,000
Current portion of long-term debt	1,705,000	1,630,000
Acounts payable	3,521,938	5,628,666
Accrued expenses	2,444,596	3,262,330
Self-insurance liability	3,333,941	4,225,087
Due to City of Norfolk	-	1,950,446
Advanced capital contributions	2,141,490	2,224,480
Total current liabilities	24,246,965	28,421,009
Long-term debt	7,610,000	9,315,000
Total liabilities	31,856,965	37,736,009
Net position		
Investment in capital assets	349,872,457	370,882,384
Unrestricted	(2,396,171)	358,355
Designated for self-insurance liability	1,133,621	946,161
Total net position	348,609,907	372,186,900
	$ 380,466,872	$ 409,922,909

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Revenue, Expenses and Changes in Net Position

Years Ended June 30,	2013	2012
Operating revenue		
Passenger fares	$ 15,059,102	$ 16,563,517
Charters and contracts	18	13,742
Vanpool rentals	177,911	170,138
Auxiliary	1,005,820	731,827
Nontransportation	184,424	189,229
	16,427,275	17,668,453
Operating expenses		
Labor	37,029,933	36,459,948
Fringe benefits	15,935,969	15,919,415
Depreciation and amortization	30,582,193	23,535,796
Materials and supplies	14,079,082	14,309,506
Purchase of transportation services	8,320,274	8,084,487
Contractual services	5,765,101	5,665,506
Insurance - net of ordinary recoveries	4,308,865	7,196,743
Utilities	1,361,074	1,312,737
Other	1,285,981	1,083,639
	118,668,472	113,567,777
Operating loss before subsidies and grants	(102,241,197)	(95,899,324)
Subsidies and grants	71,304,102	71,066,933
Operating loss before other income (expenses)	(30,937,095)	(24,832,391)
Other income (expenses)		
Interest income	4,760	3,109
Interest expense	(631,645)	(702,559)
Gain on sale of capital assets	25,093	84,969
Noncapitalized grant expenditures	(7,802,976)	(11,313,086)
	(8,404,768)	(11,927,567)
Loss before proceeds from capital grants	(39,341,863)	(36,759,958)
Proceeds from capital grants	15,764,870	44,962,979
Changes in net position	(23,576,993)	8,203,021
Net position - beginning of year	372,186,900	363,983,879
Net position - end of year	$ 348,609,907	$ 372,186,900

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,	2013	2012
Cash flows from operating activities		
Receipts from customers and users	$ 16,564,681	$ 17,423,203
Payments to suppliers for goods and services	(38,747,277)	(39,713,581)
Payments to employees	(53,783,636)	(51,591,236)
Net cash from operating activities	(75,966,232)	(73,881,614)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	71,304,102	71,066,933
Increase in note payable - bank	1,600,000	-
Net cash from noncapital financing activities	72,904,102	71,066,933
Cash flows from capital and related financing activities		
Decrease in advanced capital contributions	(82,990)	(863,902)
Interest expense	(631,645)	(702,559)
Acquisition of capital assets and intangible assets	(8,013,484)	(31,752,178)
Noncapitalized grant expenditures	(7,802,976)	(11,313,086)
Proceeds from disposition of capital assets	25,093	84,969
Proceeds from capital grants	23,027,099	48,103,040
Payments on long-term debt	(1,630,000)	(1,560,000)
Net cash from capital and related financing activities	4,891,097	1,996,284
Cash flows from investing activities		
Interest income	4,760	3,109
Net cash from investing activities	4,760	3,109
Net change in cash and cash equivalents	1,833,727	(815,288)
Cash and cash equivalents - beginning of year	2,420,378	3,235,666
Cash and cash equivalents - end of year	$ 4,254,105	$ 2,420,378

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,	2013	2012
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$ (102,241,197)	$ (95,899,324)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	30,582,193	23,535,796
Change in:		
Accounts receivable	137,406	(245,250)
Inventories	(799,076)	(451,777)
Prepaid expenses	170,050	(817,670)
Accounts payable	(2,106,728)	(2,579,817)
Accrued expenses	(817,734)	788,127
Self-insurance liability	(891,146)	1,788,301
Net cash from operating activities	$ (75,966,232)	$ (73,881,614)

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

1. Organization and Nature of Business

The ***Transportation District Commission of Hampton Roads*** (Commission) was formed on June 29, 1999, to effect the merger of the Peninsula Transportation District Commission (PTDC) and the Tidewater Transportation District Commission (TTDC) effective October 1, 1999. The Commission was established in accordance with Chapter 45 of Title 15.2 of the *Code of Virginia* (1950), as amended, referred to as the Transportation District Act of 1964 and by ordinances as adopted by the governing bodies of its component governments. The Commission provides public transportation facilities and services within the Cities of Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, 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.

GASB Adoption

Effective with the financial statements for the fiscal year ended June 30, 2013, the Commission has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement amends previous reporting requirements by incorporating the financial elements of deferred outflows of resources and deferred inflows of resources in the presentation of financial position. Under the provisions of this statement, net position, rather than net assets, represents the difference between all other elements on an entity’s statement of financial position, or balance sheet. Accordingly, the Commission’s financial statements, items on the balance sheet are now classified as assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.

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.

Revenue

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

Cash and Cash Equivalents

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

Net Position

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

Budgets and Budgetary Accounting

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

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

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

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

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

Estimates

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

Advertising Costs

Advertising costs are charged to operations when incurred. For 2013 and 2012, $379,867 and $362,386, 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 10, 2013, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2013 and 2012, the carrying value of the Commission's deposits with banks was $1,045,671 and $(138,297), respectively, and the bank balances were $2,609,513 and $3,515,536, 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, 2013 and 2012, the Commission had $2,829,189 and $2,180,052, 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 and Administrative 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 statue, 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, 2013 and 2012, 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
2013	
Money market funds - Virginia LGIP	$ 379,245
Other money market funds	2,829,189
Total cash equivalents	3,208,434
Total bank deposits	1,045,671
Total cash and cash equivalents	$ 4,254,105
2012	
Money market funds - Virginia LGIP	$ 378,623
Other money market funds	2,180,052
Total cash equivalents	2,558,675
Total bank deposits	(138,297)
Total cash and cash equivalents	$ 2,420,378

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:

	2013	2012
Federal Transit Administration	$ 7,338,161	$ 12,633,091
Commonwealth of Virginia	1,386,233	2,258,772
Local governments	2,425,602	5,399,588
	$ 11,149,996	$ 20,291,451

5. Inventories

Inventories consisted of the following:

	2013	2012
Bus and service vehicle parts	$ 2,490,029	$ 2,180,961
Light rail parts	675,606	122,635
Fuel and oil	169,795	232,758
	$ 3,335,430	$ 2,536,354

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	$ 9,020,378	$ -	$ -	$ 9,020,378
Construction in process:				
Structure	-	791,454	-	791,454
Southside facility	-	398,354	-	398,354
Information technology	-	1,819,654	-	1,819,654
Tools/equipment	-	73,784	-	73,784
	9,020,378	3,083,246	-	12,103,624
Capital assets being depreciated				
Buses	88,620,761	2,747,205	(194,057)	91,173,909
Buildings and improvements	94,300,692	-	(102)	94,300,590
Para transit & service vans	4,955,098	68,909	(705,141)	4,318,866
Pedestrian ferries and docks	6,529,541	-	-	6,529,541
Fare collection equipment	10,846,765	591,333	(75,892)	11,362,204
Shop and garage equipment	4,728,703	659,695	(588,118)	4,800,279
Radio and communications equipment	9,509,344	44,858	(122,783)	9,431,419
Management information system	6,344,220	322,056	(53,688)	6,612,587
Furniture and office equipment	1,977,915	22,576	(91,794)	1,908,697
Bus shelters and signs	2,304,267	18,491	(38,855)	2,283,902
Service vehicles	1,647,456	109,618	(52,401)	1,704,673
Supervisory vehicles	637,965	-	(96,040)	541,925
Light Rail	255,895,528	200,648	-	256,096,178
	488,298,255	4,785,389	(2,018,871)	491,064,770
Less - accumulated depreciation	(116,515,403)	(30,055,944)	1,956,212	(144,615,135
	371,782,852	(25,270,556)	(62,658)	346,449,635
	$ 380,803,230	$ (22,187,310)	$ (62,658)	$ 358,553,259

7. Due to City of Norfolk

Due to late funding related to federal grants for construction of the light rail, at June 30, 2012, the Commission owed $1,950,446 to the City of Norfolk for amounts previously paid by the City of Norfolk for construction of the light rail. During 2013, this amount was paid off.

8. 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:

	2013	2012
City of Chesapeake	$ (153,278)	$ (119,577)
City of Hampton	324,956	(153,642)
City of Newport News	300,517	(395,625)
City of Norfolk	(132,233)	(119,227)
City of Portsmouth	(167,693)	(163,288)
City of Suffolk	-	68,516
City of Virginia Beach	(193,684)	(188,549)
	$ (21,415)	$ (1,071,392)

For 2013 and 2012, the amounts owed by participating municipalities are included in due from governments in the consolidated statements of net position.

9. Notes Payable - Bank

The Commission has revolving lines of credit of $6,000,000 and $13,000,000, which mature January 31, 2014. Advances on the lines of credit were collateralized by the pledging of all revenue, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 77% of the London Interbank Offered Rate (LIBOR) plus 166 basis points with a floor of 2%, (2.00% at June 30, 2013). At June 30, 2013 and 2012, the Commission owed $11,100,000 and $9,500,000, respectively, against the lines of credit.

10. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	2013	2012
Balance - July 1	$ 10,945,000	$ 12,505,000
Increases	-	-
Decreases	(1,630,000)	(1,560,000)
Balance - June 30	$ 9,315,000	$ 10,945,000
Amount due within one year	$ 1,705,000	$ 1,630,000

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:

Fiscal Year Ending June 30,	Principal	Interest
2014	$ 1,705,000	$ 361,966
2015	1,780,000	284,176
2016	1,860,000	205,642
2017	3,970,000	154,321
	$ 9,315,000	$ 1,006,105

11. Operating Lease

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2013 and 2012, lease expense was $85,000 and $86,152, respectively.

Future minimum lease payments under these leases are as follows:

2014	$ 87,550
2015	60,118
	$ 147,668

12. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	2013	**2012**
Federal	$ 23,465,658	$ 28,695,082
State	17,374,018	14,112,461
Local	30,464,426	28,259,390
	$ 71,304,102	$ 71,066,933

13. Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2013 and 2012, contributions received from local governments exceeded amounts expended by $2,141,490 and $2,224,480, respectively, and are shown in the accompanying consolidated statements of net position as advanced capital contributions.

14. 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 as early as 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. Nonhazardous 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 sheriff's 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/2012-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. For June 30, 2013 and 2012, the Commission has assumed the required employee portion. In addition, the Commission 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, 2013 and 2012, was 5.99% each year.

b) Annual Pension Cost

For the years ended June 30, 2013 and 2012, the Commissions annual pension cost of $937,711 and $876,687, respectively was equal to the Commission's required and actual contributions.

Three-Year Trend Information for County/City/Town

Fiscal Year Ending	Annual Pension Cost (APC)	*Percentage of APC Contributed*	Net Pension Obligation
June 30, 2013	$937,711	100%	$ -0-
June 30, 2012	$876,687	100%	$ -0-
June 30, 2011	$716,508	100%	$ -0-

The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2012, 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% for plan 1 members and 2.25% for plan 2 members 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, 2012, for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

c) Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 85.96% funded. The actuarial accrued liability for benefits was $27,892,394, and the actuarial value of assets was $23,976,022, resulting in an unfunded actuarial accrued liability (UAAL) of $3,916,372. The covered payroll (annual payroll of active employees covered by the plan) was $15,003,902, and ratio of the UAAL to the covered payroll was 26.10%.

d) 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
June 30, 2012	$ 23,976,022	$ 27,892,394	$ (3,916,372)	85.96%	$ 15,003,902	(26.10%)
June 30, 2011	$ 22,816,887	$ 25,365,107	$ (2,548,220)	89.95%	$ 12,829,439	(19.86%)
June 30, 2010	$ 21,442,564	$ 23,144,373	$ (1,701,809)	92.65%	$ 11,424,021	(14.90%)

B. Retirement Plan of the Transportation District Commission of Hampton Roads

a) Plan Description

Effective January 1, 2012, the Transit Employees of Tidewater Disability and Retirement Allowance Plan and Retirement Plan of Hampton Roads Transportation District Commission merged to become Retirement Plan of the Transportation District Commission of Hampton Roads (Plan). The Plan represents Transit Management Company (Subsidiary), a wholly owned subsidiary of the Commission, which covers principally those employees subject to the Commission's union bargaining agreement between the Commission and the Local Union 1177 (Union), Norfolk, VA, of the Amalgamated Transit Union, dated July 1, 2010.

Employees are eligible to participate in the Plan after 60 days of service with the employer. Normal pension benefits are available for participants who are age 65 with 10 years of service, has attained at least age 61 but less than 65 so that total of age and length of credited service is 85 or more, or any age with completion of 25 years of 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 at 7.5% and no more than 9.5% of compensation paid to the participant during the month, with a minimum contribution of $40.

c) Annual Required Contributions (ARC)

For the period July 1, 2012 through June 30, 2013, the Commission's actual contribution was $1,727,535. The required contribution was determined as part of the December 31, 2012, 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)
June 30, 2014	$	1,898,096	N/A		N/A
June 30, 2013	$	1,528,284	108.38%	$	(128,093)

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
January 1, 2013	$	45,103,559	$	54,378,754	$ (9,275,195)	82.94%	$	23,759,270	(39.04%)
January 1, 2012	$	41,875,499	$	50,475,267	$ (8,599,768)	82.96%	$	24,692,831	(34.83%)

f) Notes to Schedules of Employer Contributions and Funding Progress

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, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	30 year open period
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

15. Compensated Absences

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

Length of Service	Days Earned Per Year
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, 2013 and 2012, the Commission has accrued $1,077,814 and $1,014,236, respectively, for compensated absences.

16. 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.

* * * * *

Required Supplementary Information

Transportation District Commission of Hampton Roads

Enterprise Fund - Transit Activity
Schedule of Revenue - Actual and Budgeted

Year Ended June 30, 2013

	Actual	Budgeted	Actual Over (Under) Budget
Revenue			
Passenger fares	$ 15,059,102	$ 18,700,000	$ (3,640,898)
Charters and contracts	18	-	18
Vanpool rentals	177,911	-	177,911
Auxiliary	1,005,820	-	1,005,820
Nontransportation	184,424	-	184,424
Total revenue	16,427,275	18,700,000	(2,272,725)
Subsidies and grants			
Municipal subsidies	30,464,426	32,700,000	(2,235,574)
State operating subsidies	17,374,018	13,600,000	3,774,018
Federal operating grants	23,465,658	28,200,000	(4,734,342)
Total subsidies and grants	71,304,102	74,500,000	(3,195,898)
Total revenue, subsidies and grants	$ 87,731,377	$ 93,200,000	$ (5,468,623)

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

As reflected in the consolidated statement of revenue, expenses and changes in net position	
Operating revenue	$ 16,427,275
Subsidies and grants	71,304,102
	$ 87,731,377

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2013

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	$ 52,965,902	$ 55,000,000	$ (2,034,098)
Materials and supplies	14,079,082	14,700,000	(620,918)
Insurance - net of ordinary recoveries	4,496,325	7,400,000	(2,903,675)
Purchase of transportation services	8,320,274	8,100,000	220,274
Contractual services	5,765,101	5,100,000	665,101
Utilities	1,361,074	1,700,000	(338,926)
Other	1,285,981	1,200,000	85,981
Total transit activity expenses before depreciation and amortization	$ 88,273,739	$ 93,200,000	$ (4,926,261)

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

Total transit activity expenses before depreciation	$ 88,273,739
Depreciation and amortization	30,582,193
Self-insurance net increase in net position	(187,460)
	$ 118,668,472

Transportation District Commission of Hampton Roads

Schedule of Funding Progress - Pension Plans

Year Ended June 30, 2013

Virginia Retirement System

Valuation Date	Acturial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Acturial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
June 30, 2012	$ 23,976,022	$ 27,892,394	$ (3,916,372)	85.96%	$ 15,003,902	(26.10%)
June 30, 2011	$ 22,816,887	$ 25,365,107	$ (2,548,220)	89.95%	$ 12,829,439	(19.86%)
June 30, 2010	$ 21,442,564	$ 23,144,373	$ (1,701,809)	92.65%	$ 11,424,021	(14.90%)

Retirement Plan of the Transportation District Commission of Hampton Roads - after the merger

Valuation Date	Acturial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Acturial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
January 1, 2013	$ 45,103,559	$ 54,378,754	$ (9,275,195)	82.94%	$ 23,759,270	(39.04%)
January 1, 2012	$ 41,875,499	$ 50,475,267	$ (8,599,768)	82.96%	$ 24,692,831	(34.83%)

Transit Employees of Tidewater Disability and Retirement Allowance Plan - before the merger

Valuation Date	Acturial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Acturial 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%)

Retirement Plan of the Transportation District Commission of Hampton Roads - before the merger

Valuation Date	Acturial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Acturial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
June 30, 2010	$ 15,945,080	$ 16,414,389	$ (469,309)	97.14%	$ 7,329,617	6%

Statistical Section

Transportation District Commission of Hampton Roads

Condensed Statements of Net Position

Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005 [1]	2004 [2]
Net position										
Investment in capital assets	$349,872,457	$370,882,384	$362,464,665	$275,482,561	$178,363,138	$75,055,817	$39,215,630	$42,380,359	$49,259,964	$56,929,791
Unrestricted	(2,396,171)	358,355	322,598	40,836	2,273,787	1,949,808	2,277,306	2,625,830	2,609,307	2,876,390
Commission designated for self-insurance liability	1,133,621	946,161	1,196,616	(705,515)	(1,179,259)	(1,437,514)	(1,500,386)	(1,161,813)	214,699	730,353
	$348,609,907	$372,186,900	$363,983,879	$274,817,882	$179,457,666	$75,568,111	$39,992,550	$43,844,376	$52,083,970	$60,536,534

1 Nine months period ended September 30, 2005
2 Fiscal year ended September 30, 2004

Transportation District Commission of Hampton Roads

Net Position and Changes in Net Position

Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating revenue										
Passenger fares	$ 15,059,102	$ 16,563,517	$ 15,329,690	$ 14,751,980	$ 16,953,602	$15,671,379	$15,389,194	$14,851,755	$11,946,259	$16,201,096
Charters and contracts	18	13,742	19,200	76,800	125,905	48,872	69,046	104,876	118,095	136,039
Vanpool rentals	177,911	170,138	174,831	177,058	168,817	144,734	129,519	116,131	69,551	70,727
Auxiliary	1,005,820	731,827	291,817	269,226	276,053	370,495	315,411	441,190	429,110	746,857
Nontransportation	184,424	189,229	338,116	266,398	150,813	128,050	120,963	154,474	93,701	216,375
Total operating revenue	16,427,275	17,668,453	16,153,654	15,541,462	17,675,190	16,363,530	16,024,133	15,668,426	12,656,716	17,371,094
Operating expenses										
Labor	37,029,933	36,459,948	31,358,906	30,574,713	29,165,179	26,477,853	25,589,158	23,577,151	17,436,678	22,958,653
Fringe benefits	15,935,969	15,919,415	14,841,910	14,947,924	13,955,007	13,197,440	12,066,929	11,536,164	8,596,354	11,619,606
Depreciation and amortization	30,582,193	23,535,796	10,561,359	11,956,938	10,607,127	10,153,014	7,253,593	9,125,980	9,533,434	9,560,155
Materials and supplies	14,079,082	14,309,506	12,123,871	11,370,908	14,554,686	11,790,604	11,282,036	10,865,827	6,711,999	7,460,673
Purchase of transportation services	8,320,274	8,084,487	8,229,824	7,317,820	6,700,651	5,981,429	5,673,287	5,718,726	4,273,673	5,183,534
Contractual services	5,765,101	5,665,506	4,997,821	4,485,524	3,806,872	3,377,753	3,716,817	3,377,825	2,407,980	2,507,621
Insurance - net of ordinary recoveries	4,308,865	7,196,743	3,274,247	3,765,591	3,490,501	2,989,774	2,789,248	3,459,879	1,886,158	1,646,820
Utilities	1,361,074	1,312,737	736,784	678,685	790,534	720,958	721,895	809,020	586,301	690,117
Other	1,285,981	1,083,639	960,543	669,995	1,504,933	1,574,515	922,095	1,043,342	808,159	959,467
Total operating expenses	118,668,472	113,567,777	87,085,265	85,768,098	84,575,490	76,263,340	70,015,058	69,513,914	52,240,736	62,586,646
Operating loss before subsidies and grants	(102,241,197)	(95,899,324)	(70,931,611)	(70,226,636)	(66,900,300)	(59,899,810)	(53,990,925)	(53,845,488)	(39,584,020)	(45,215,552)
Subsidies and grants	71,304,102	71,066,933	60,555,809	58,020,430	57,263,369	50,394,765	45,859,566	42,933,286	29,289,271	34,611,049
Operating loss before other income (expenses)	(30,937,095)	(24,832,391)	(10,375,802)	(12,206,206)	(9,636,931)	(9,505,045)	(8,131,359)	(10,912,202)	(10,294,749)	(10,604,503)
Other income (expenses)										
Interest income	4,760	3,109	11,460	13,535	83,469	406,255	759,618	135,623	25,602	16,967
Interest expense	(631,645)	(702,559)	(725,536)	(911,415)	(877,316)	(846,964)	(809,095)	(129,102)	(47,024)	(55,611)
Gain (loss) on sale of capital assets	25,093	84,969	165,079	78,881	(205,541)	83,910	40,367	81,715	-	149,776
Noncapitalized grant expenditures	(7,802,976)	(11,313,086)	(11,680,362)	(7,210,393)	(7,966,713)	(9,576,307)	(10,732,282)	(6,971,868)	(4,015,123)	(10,180,888)
	(8,404,768)	(11,927,567)	(12,229,359)	(8,029,392)	(8,966,101)	(9,933,106)	(10,741,392)	(6,883,632)	(4,036,545)	(10,069,756)
Loss before proceeds from capital grants	(39,341,863)	(36,759,958)	(22,605,161)	(20,235,598)	(18,603,032)	(19,438,151)	(18,872,751)	(17,795,834)	(14,331,294)	(20,674,259)
Proceeds from capital grants	15,764,870	44,962,979	111,771,158	115,595,814	122,492,587	55,013,712	15,020,925	9,556,240	5,878,730	19,363,056
Change in net position	(23,576,993)	8,203,021	89,165,997	95,360,216	103,889,555	35,575,561	(3,851,826)	(8,239,594)	(8,452,564)	(1,311,203)
Net position - beginning of period	372,186,900	363,983,879	274,817,882	179,457,666	75,568,111	39,992,550	43,844,376	52,083,970	60,536,534	61,847,737
Net position - end of period	$348,609,907	$372,186,900	$363,983,879	$274,817,882	$179,457,666	$75,568,111	$39,992,550	$43,844,376	$52,083,970	$60,536,534

Transportation District Commission of Hampton Roads

Fare Structure

Year Ended June 30, 2013

Bus and Light Rail		
	Adult	1.50
	Youth	1.00
	Seniors/Persons with Disabilities	0.75
	Children (under 38 inches tall)	Free
	1-Day GoPass	3.50
	1-Day GoPass (Seniors, Persons with Disabilities, Youth)	1.75
	7-Day GoPass	17.00
	30-Day GoPass	50.00
	30-Day GoPass (Seniors, Persons with Disabilities, Youth)	35.00
Ferry		
	Adult/Youth	1.50
	Seniors/Persons with Disabilities	0.75
	Children (under 38 inches tall)	Free
	1-Day GoPass	3.50
	1-Day GoPass (Seniors, Persons with Disabilities, Youth)	1.75
	7-Day GoPass	17.00
	30-Day GoPass	50.00
	30-Day GoPass (Seniors, Persons with Disabilities, Youth)	35.00
	2-Day GoPass	3.00
	2-Day GoPass (Seniors, Persons with Disabilities, Youth)	1.50
MAX		
	Single	3.00
	Seniors/Persons with Disabilities	1.50
	Children (under 38 inches tall)	Free
	1-Day GoPass	5.50
	30-Day GoPass	95.00
VB Wave		
	Adult/Youth	1.00
	Seniors/Persons with Disabilities	0.50
	Children (under 38 inches tall)	Free
	1-Day MAX Pass (Seniors, Persons with Disabilities, Youth)	2.00
	1-Day MAX Pass	1.00
	30-Max Pass (Seniors, Persons with Disabilities, Youth)	5.00
	30-Max Pass	2.50

Transportation District Commission of Hampton Roads

Demographic and Economic Statistics [1]

Last Ten Fiscal Years

Year	Population [2]	Personal Income [3]	Per Capita Income	Unemployment Rate [4]
2012	1,688,876	N/A	N/A	N/A
2011	1,676,012	69,931,246	41,725	7.0%
2010	1,669,874	66,654,130	39,916	7.1%
2009	1,658,106	64,587,037	38,952	6.9%
2008	1,652,316	66,082,935	39,994	4.2%
2007	1,653,503	63,725,279	38,540	3.2%
2006	1,655,647	60,344,479	36,448	3.3%
2005	1,639,878	56,228,336	34,288	3.9%
2004	1,633,565	53,284,201	32,618	4.0%
2003	1,608,565	50,389,551	31,326	4.2%

1 Hampton Roads PDC includes Chesapeake, Franklin, Southampton, Gloucester, Hampton, Isle of Wight, James City, Williamsburg, Newport News, Norfolk, Poquoson, York, Portsmouth, Suffolk, Surry and Virginia Beach
2 Source: U. S. Census Bureau
3 Source: Bureau of Economic Analysis & HRPDC
4 Source: Virginia Employment Commission
N/A Not available

Transportation District Commission of Hampton Roads

Demographic and Operating Statistics [1]

Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Population within service area [2]	1,439,666	1,439,666	1,439,666	1,210,588	1,210,588	1,210,588	1,210,588	1,210,588	1,210,588	1,210,588
Cities served [2]	6	6	7	7	7	7	7	7	7	7
Square miles [2]	515	515	515	369	369	369	369	369	369	369
Total Buses	234	240	221	227	290	291	279	282	276	287
Total Light Rail Cars	9	9								
Total Ferry Boats	3	3	3	3	3	3	3	3	3	3
Paratransit vehicles	82	84	80	74	71	64	68	75	80	132
Vanpool vehicles	54	52	52	55	52	46	43	38	32	32
Number of employees: [3]										
Administrative FT	270	261	235	211	197	180	172	161	157	185
Administrative PT	76	81	36	27	33	42	39	68	65	84
Bargaining Unit FT	573	613	605	562	574	567	528	524	533	547
Bargaining Unit PT	103	99	134	72	72	152	134	121	131	132
	1022	1054	1010	872	876	941	873	874	886	948
Maintenance facilities owned	6	6	6	5	5	5	3	3	3	3
Vehicle Miles										
Bus	9,975,729	10,494,200	10,832,392	11,003,538	10,907,422	11,250,976	10,653,462	10,902,421	10,901,808	10,440,162
Paratransit	3,451,692	3,471,515	3,438,711	3,273,196	3,141,304	2,841,514	2,756,071	2,766,620	2,557,365	2,482,743
Ferry	16,995	13,479	12,552	12,491	12,050	12,285	12,376	12,290	12,330	12,515
Vanpool	943,950	945,663	901,364	823,994	798,511	697,774	725,390	647,388	600,573	641,674
Light rail	376,007	323,239								
Gallons of diesel fuel	2,535,071	2,698,447	2,811,773	2,874,687	3,098,729	2,961,967	2,964,999	2,953,169	2,918,035	2,885,430
Gallons of gasoline	587,615	453,533	545,282	528,579	503,575	137,096	70,176	49,801	60,057	362,994
Kilowatt hours of propulsion	3,387,625	2,950,078	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Source - National Transit Database
2 Calender year ended
3 Source - Transportation District Commission of Hampton Roads Human Resources Department
N/A No information available

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

Commissioners
Transportation District Commission of Hampton Roads

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary (Commission) as of and for the year ended June 30, 2013, and the related notes to the consolidated financial statements, which collectively comprise ***Transportation District Commission of Hampton Roads***' basic consolidated financial statements and have issued our report thereon dated December 10, 2013.

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Newport News, Virginia
December 10, 2013

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditor's Report on Compliance with Requirements For Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Commissioners
Transportation District Commission of Hampton Roads

Report on Compliance for Each Major Federal Program

We have audited ***Transportation District Commission of Hampton Roads*** and Subsidiary's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Transportation District Commission of Hampton Roads'*** major federal programs for the year ended June 30, 2013. The ***Transportation District Commission of Hampton Roads'*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the ***Transportation District Commission of Hampton Roads*** complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

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Report on Internal Control Over Compliance

Management of ***Transportation District Commission of Hampton Roads*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. 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 deficiencies, in internal control compliance, such that there is a reasonable possibility that material and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Dixon Hughes Goodman LLP

Newport News, Virginia
December 10, 2013

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

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 03-0116	Norfolk Light Rail Transit Proj	2007	20.500	$ 93,577
VA 04-0035	Fixed Guideway Grant	2008	20.500	(21,794)
VA 04-0050	Southside Facility Project - Admin. Bldg.	2011	20.500	636,139
VA 05-0053	Four Buses/Maintenance	2010	20.500	1,450,000
VA 05-0043	Fixed Guideway Grant	2009	20.500	486,347
VA 05-0045	Fixed Guideway Grant	2010	20.500	887,224
VA 05-0047	Fixed Guideway Grant	2011	20.500	391,871
VA 37-X014	JARC Grant	2007	20.516	455,721
VA 37-X022	JARC Grant	2012	20.516	642,348
VA 57-X001	New Freedom Grant	2007	20.521	96,973
VA 90-X262	Capital Assistance	2005	20.500	52,623
VA 90-X282	Capital Assistance	2006	20.500	68,081
VA 90-X304	Capital Assistance	2007	20.500	4,946
VA 90-X320	Capital Assistance	2008	20.500	133,473
VA 90-X344	Capital Assistance	2009	20.500	475,950
VA 90-X359	5307 Capital Grant	2010	20.500	962,200
VA 90-X369	5307 Capital Grant	2011	20.500	767,475
VA 90-X381	5307 Preventative Maintenance	2012	20.500	2,255,359
VA 90-X395	5307 Capital Grant	2012	20.500	13,301,770
VA 95-X014	MAX/Ports Shuttle	2009	20.500	646,035
VA 95-X063	Patrick Henry Mall Transf/VB Rail Study	2009	20.500	579,937
VA 95-X064	Hybrid Buses	2010	20.500	296,903
VA 95-X070	Southside Facility	2010	20.500	76,770
VA 95-X080	CMAQ Newport News Shelters	2010	20.500	118,988
VA 95-X095	LRT Oper/Feeder Bus	2010	20.500	5,001,804
VA 95-X097	Transit Resigning	2011	20.500	478,194
VA 96-X003	ARRA 5307 Grant	2009	20.500	367,519
Total Department of Transportation				30,706,433
Passed through from Department of Rail and Public Transportation				
47012-54 Regional TDM program Traffix		2012	20.507	610,345
47011-09 Regional TDM program Traffix		2011	20.507	206,362
Total Department of Rail and Public Transportation				816,707
Passed through from Southeastern Virginia Planning District Commission				
Federal Transit Administration Technical Studies Grant and Section 8 Grant		2010	20.507	174,243
Total Hampton Roads Planning District Commission				
Department of Homeland Security				
2009-PU-R1-0378	Transit Security Grant	2009	97.056	10,227
UASI	Urban Area Security Initiative Grant	2009	97.008	238,850
Total Department of Homeland Security				249,077
	Total all capital improvement grants			$ 31,946,460

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2013

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.

June 30, 2013

1. Summary of Auditors' Results

Financial Statements

a. An unmodified opinion was issued on the consolidated financial statements.

b. There were no material weaknesses identified.

c. There were no significant deficiencies identified.

d. The audit did not disclose any noncompliance material to the consolidated financial statements.

Federal Awards

a. There were no material weaknesses identified.

b. There were no significant deficiencies identified.

c. An unmodified opinion was issued on compliance for major programs.

d. The audit did not disclose any audit findings required to be reported.

e. Major programs are:

   i. Federal Transit Cluster (20.500 and 20.507)

   ii. Job Access-Reverse Commute and New Freedom Program Cluster (20.516 and 20.521)

f. The dollar threshold used to distinguish between Type A and Type B programs is $958,394.

g. The Commission did not qualify as a low-risk auditee.

Schedule of Prior Year Findings and Corrective Action Plan

Transportation District Commission of Hampton Roads

Schedule of Prior Year Audit Findings and Corrective Action Plan

Year Ended June 30, 2013

	Comment Description and Number	Corrected Yes/No	In-Process of Correcting	Valid	Amount of Questioned Cost	Description of Action Taken by Commission
	FINANCIAL STATEMENT FINDINGS					
	Audit Report for the Year Ended June 30, 2012					
FA-2012-1	Procedures should be in place to reconcile the cash operating account throughout the year.	Yes	No	Yes	None	Financial analyst was hired to perform the reconciliations each month.
FA-2012-2	Internal controls should be in place to ensure appropriate preparation, authorization, and approval of journal entries.	Yes	No	Yes	None	A new journal entry processing procedure was implemented and a journal entry log report was created.
FA-2012-3	Internal controls should be in place to ensure cash is recorded as soon as it is received and recorded in the proper accounting period.	Yes	No	Yes	None	Monthly reconciliations of the cash account are being performed.
	FEDERAL AWARD FINDINGS					
	Audit Report for the Year Ended June 30, 2012					
FA-2012-4	Cash management procedures should be in place to monitor grant fund requests against eligible expenses.	Yes	No	Yes	None	Staff has been cross trained to better understand the draw process and procedures.

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

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

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