HAMPTON ROADS
TRANSIT

Comprehensive Annual

FINANCIAL REPORT

Transportation District Commission of Hampton Roads

Years Ended

June 30, 2014 & 2013

Transportation District Commission of Hampton Roads

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2014 and 2013

Prepared by Department of Finance

Sylvia L. Shanahan, Director of Finance

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Transportation District Commission of Hampton Roads

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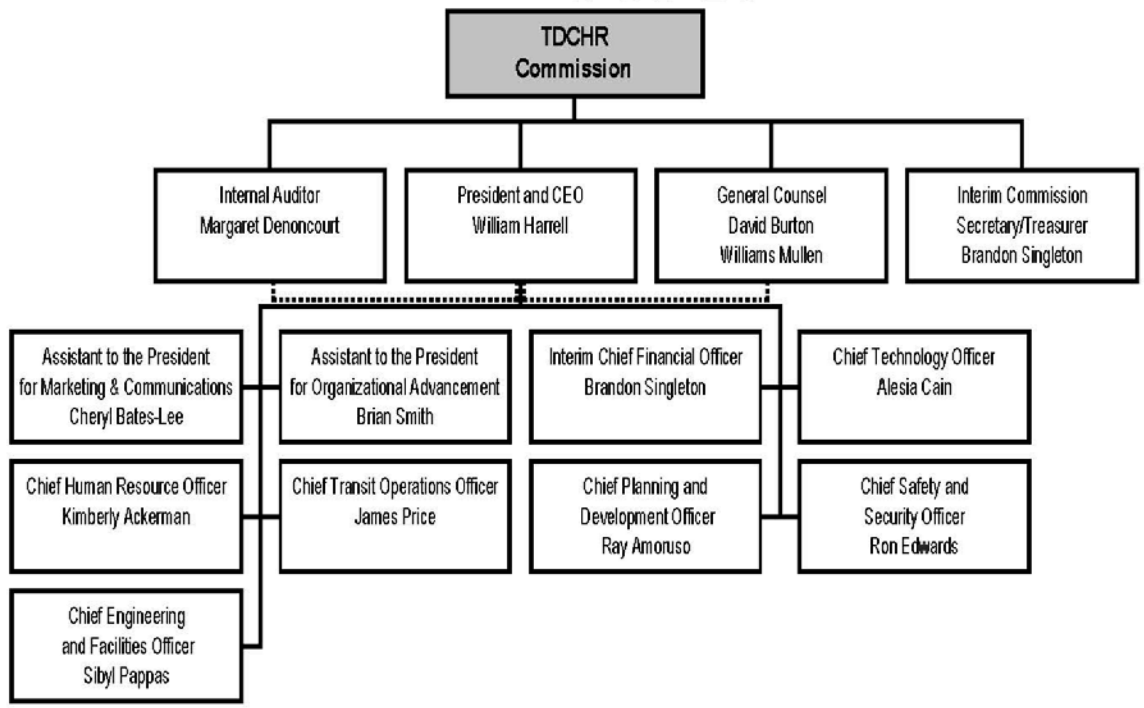

Note:

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

Chairman

Kenneth I. Wright
City of Portsmouth

Vice - Chairman

William J. Moffett
City of Hampton

Commissioners

Douglas W. Fuller
City of Chesapeake

Robert R. Harper, Jr.
City of Hampton

Charles B. Hunter
City of Portsmouth

Jennifer Mitchell
Virginia Department of Rail and Public Transportation

Allen C. Tanner, Jr.
City of Newport News

James P. Toscano
City of Norfolk

John Uhrin
City of Virginia Beach

Richard W. West
City of Chesapeake

Barclay C. Winn
City of Norfolk

James L. Wood
City of Virginia Beach

Patricia P. Woodbury
City of Newport News

Transportation District Commission of Hampton Roads

Executive Leadership Team

President and Chief Executive Officer	William E. Harrell
Interim Chief Financial Officer	Brandon K. Singleton
Chief Human Resources Officer	Kimberly Ackerman
Chief Planning and Development Officer	Raymond Amoruso
Chief Technology Officer	Alesia Cain
Chief Safety and Security Officer	Ronald E. Edwards
Chief Environmental and Facilities Officer	Sibyl Pappas
Chief Transit Operations Officer	James E. Price, Jr.

Finance Staff

Director of Finance	Sylvia L. Shanahan
Assistant Director of Finance	Debbie L. Ball
Finance Manager	Hien Hoang
Finance Manager	Angela Neselrod
Interim Director of Budget and Financial Analysis	Juanita Davis
Director of Procurement	Dyanne Sampson
Director of Revenue Services	Paul A. Croston

HAMPTON ROADS TRANSIT

November 13, 2014

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, 2014. State law requires the Commission to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with Government Auditing Standards by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and the report does comply with state law and guidelines of the Auditor of Public Accounts of the Commonwealth of Virginia.

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

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

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

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic 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 Transit (HRT), provides transit service in the Peninsula/Tidewater region of Southeastern Virginia.

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

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

HRT operates a fleet of 279 buses for fixed-route service. Its' bus fleet consists of standard 29-foot, 35-foot, and 40-foot transit coaches and diesel-electric hybrid buses. The current peak requirement of 220 vehicles occurs in the summer season, with the nonseasonal peak requirement being 204 vehicles. HRT also has a fleet of 38 vans and cutaways, and 58 vehicles that are provided by a paratransit contractor. HRT's ferry operation uses a fleet of 3 vessels. HRT also owns 9 light rail vehicles and 66 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, VA and 3400 Victoria Boulevard, Hampton, VA;
- Three bus garages located at 509 E. 18th Street, Norfolk, VA, 3400 Victoria Boulevard, Hampton, VA; and 1400 Parks Avenue, Virginia Beach, VA;
- One light rail storage and maintenance facility at 1850 W. Brambleton Avenue, Norfolk, VA;
- Three transit centers located in Newport News, VA; Virginia Beach, VA; and Hampton, VA; and
- Rail operations located at 3404 Mangrove Avenue, Norfolk, VA

Organizational Structure

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

Economic Condition

HRT serves six cities that are a part of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). The Hampton Roads metropolitan area has a population of 1.7 million people and is ranked as the ninth-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.

The U.S. Bureau of Economic Statistics reports that between the years 2012 and 2013 the local MSA's GDP rose 1.9%, which is slightly above that of the Commonwealth of Virginia, and about half of the national GDP.

Employment in the local MSA area increased from 791,477 in June 2013 to 802,396 as of June 2014. Virginia's employment in June 2013 was 3,996,631 and increased to 4,103,477 as of June 2014. The unemployment rate has an inverse effect from the employment. As of June 2013, the unemployment rate was 6.4% in the local MSA and 5.5% for the state of Virginia in comparison to 5.8% for the local MSA and 5.4% for the state at June 2014.

Budget and Funding

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

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

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

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

Long-Term Planning

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

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

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

<u>Completed Projects</u>

- Study of HRT Fare Structure and update of HRT's Fare Policy.
- Bus Refurbishment for 12 buses, bumper to bumper.
- Military Circle Bus Terminal rehabilitation.

<u>Projects Underway</u>

- 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.
- Rehabilitation and renovation of 3400 Victoria Boulevard Administration and Operating Division in Hampton.
- Repowering thirty-six 2000 and 3000 series buses. A rolling stock repower includes the midlife replacement of drive line components and upgrade the engine cooling systems.

<u>Future Projects</u>

- Procurement of twenty-five, 40 foot buses along with fourteen replica trolley buses.
- The Draft Environmental Impact Statement (EIS) for the Virginia Beach Transit Extension Study (VBTES) will be completed, and HRT will request that City of Virginia Beach City Council select a Locally Preferred Alternative. HRT will advance into the Final EIS and Preliminary Engineering in 2015 with the goal of receiving a formal Record of Decision from the Federal Transit Administration in 2016.
- Hampton Roads Transit will present the results of the Local Corridor Study for the Naval Station Norfolk Transit Extension Study (NSNTES) to Norfolk City Council and request the Council select a preferred corridor for further study. Pending local match to State funding, Hampton Roads Transit will advance into a Draft Environmental Impact Statement (DEIS) in 2015. The DEIS is expected to be a multi-year study process.

Awards and Achievements

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governmental units that publish an easily readable and efficiently organized comprehensive annual financial report that meets all generally accepted accounting principles and applicable legal requirements. Hampton Roads Transit has received this award for its comprehensive annual financial report for the fiscal year ended June 30, 2013.

The Transportation Security Administration Gold Standard Award was presented to Hampton Roads Transit for achieving the highest standard of excellence in Security for the Baseline Assessment Security Enhancement (BASE) Program.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedicated efforts of the entire finance 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,

BK Singleton

Brandon Singleton
Chief Financial Officer/Commission Treasurer

Sylvia L Shanahan

Sylvia L. Shanahan
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Transportation District Commission

of Hampton Roads, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Financial Section

Independent Auditors' 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Specification for Audits of Authorities, Boards and Commissions issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the 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.

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

Opinion

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, 2014 and 2013, 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 12 through 15, the Schedule of Revenue - Actual and Budgeted on page 38, the Schedule of Expenses - Actual and Budgeted on page 39 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. Such 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 November 13, 2014, 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
November 13, 2014

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, 2014. 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 2014.

- The decrease in net position for 2014 was $19.6 million. The majority of this change is attributable to depreciation and amortization costs during the fiscal year.
- Operating revenue of $18 million were 11% or approximately $ 1.8 million more than fiscal year 2013, primarily due to the increase in media and cash sales as well as increase in GoPass365 contract rates.
- Operating expenses of $120 million (including depreciation and amortization) increased by 1% or $1.1 million due primarily to increased personnel costs.
- Subsidies and grants of $75 million were 5% or approximately $3.6 million greater than fiscal year 2013.
- At the end of the fiscal year, unrestricted net position was $(4,322,667) a decrease of $1,926,496 and Commission designated funds for self-insurance increased by $1,397,966 to a balance of $2.6 million.

Summary of Operations and Changes in Net Position

	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
Operating revenue	$ 18,263,898	$ 16,427,275	$ 17,668,453
Operating expenses	119,813,367	118,668,472	113,567,777
Operating loss before subsidies and grants	(101,549,469)	(102,241,197)	(95,899,324)
Subsidies and grants	74,907,981	71,304,102	71,066,933
Operating loss before other income (expenses)	(26,641,488)	(30,937,095)	(24,832,391)
Other income (expenses)	(10,747,567)	(8,404,768)	(11,927,567)
Loss before proceeds from capital grants	(37,389,055)	(39,341,863)	(36,759,958)
Proceeds from capital grants	17,805,078	15,764,870	44,962,979
Change in net position	$ (19,583,977)	$ (23,576,993)	$ 8,203,021

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 $329.0 million at June 30, 2014.

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

	June 30, 2014	June 30, 2013	June 30, 2012
Assets			
Current assets	$ 26,392,425	$ 21,279,415	$ 28,095,524
Capital assets - net	337,811,975	358,553,259	380,803,227
Other assets	615,035	634,198	1,024,158
Total assets	364,819,435	380,466,872	409,922,909
Liabilities			
Current liabilities	29,963,505	24,246,965	28,421,009
Long-term liabilities	5,830,000	7,610,000	9,315,000
Total liabilities	35,793,505	31,856,965	37,736,009
Net Position			
Invested in capital assets	330,817,010	349,872,457	370,882,384
Unrestricted	(4,322,667)	(2,396,171)	358,355
Commission designated for self-insurance	2,531,587	1,133,621	946,161
Total net position	$ 329,025,930	$ 348,609,907	$ 372,186,900

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.

Revenue

A summary of revenue is as follows:

	2014 Amount	Percent of Total	**2013** Amount	Percent of Total	**2012** Amount	Percent of Total
Operating						
Passenger fares	$ 16,847,734	92.3%	$ 15,059,102	91.5%	$ 16,563,517	93.3%
Charters and contracts	175,422	1.0%	18	-	13,742	0.1%
Vanpool rentals	128,864	0.7%	177,911	1.1%	170,138	1.0%
Auxiliary	914,629	5.0%	1,005,820	6.2%	731,827	4.1%
Nontransportation	197,249	1.1%	184,424	1.0%	189,229	1.0%
Total operating	18,263,898	100.1%	16,427,275	99.8%	17,668,453	99.5%
Nonoperating						
Gain (loss) on sale of capital assets	(8,313)	(0.1%)	25,093	0.2%	84,969	0.4%
Interest income	2,079	-	4,760	-	3,109	0.1%
Total nonoperating	(6,234)	(0.1%)	29,853	0.2%	88,078	0.5%
Total revenue	$ 18,257,664	100.0%	$ 16,457,128	100.0%	$ 17,756,531	100.0%

Expenses

A summary of expenses is as follows:

	2014 Amount	Percent of Total	2013 Amount	Percent of Total	2012 Amount	Percent of Total
Operating						
Labor	$ 38,365,599	29.4%	$ 37,029,933	29.9%	$ 36,459,948	29.0%
Fringe benefits	17,881,389	13.7%	15,935,969	12.9%	15,919,415	12.7%
Depreciation and amortization	28,280,028	21.7%	30,582,193	24.7%	23,535,796	18.7%
Materials and supplies	14,419,137	11.0%	14,079,082	11.4%	14,309,506	11.4%
Insurance - net of ordinary recoveries	3,469,574	2.7%	4,308,865	3.5%	7,196,743	5.7%
Purchase of transportation services	8,664,786	6.6%	8,320,274	6.7%	8,084,487	6.4%
Contractual services	6,328,661	4.8%	5,765,101	4.6%	5,665,506	4.5%
Utilities	1,402,569	1.1%	1,361,074	1.1%	1,312,737	1.0%
Other	1,001,624	0.8%	1,285,981	0.8%	1,083,639	1.0%
Total operating	119,813,367	91.8%	118,668,472	95.6%	113,567,777	90.4%
Nonoperating						
Interest expense	539,967	0.4%	631,645	.5%	702,559	0.6%
Noncapitalized grant Expenditures	10,201,366	7.8%	7,802,976	3.8%	11,313,086	9.0%
Total nonoperating	10,741,333	8.2%	8,434,621	4.3%	12,015,645	9.6%
Total expenses	$ 130,554,700	100.0%	$ 127,103,093	100.0%	$ 125,583,422	100.0%
Change in Net Position	$ (19,583,977)		$ (23,576,993)		$ 8,203,021	
Net position - beginning of year	348,609,907		372,186,900		363,983,879	
Net position - end of year	$ 329,025,930		$ 348,609,907		$ 372,186,900	

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, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities	$ (71,807,144)	$ (75,966,232)	$ (73,881,614)
Cash flows from noncapital financing activities	77,307,981	72,904,102	71,066,933
Cash flows from capital and related financing activities	(5,066,130)	4,891,097	1,996,284
Cash flows from investing activities	2,079	4,760	3,109
Net change in cash and cash equivalents	436,786	1,833,727	(815,288)
Cash and cash equivalents - beginning of period	4,254,105	2,420,378	3,235,666
Cash and cash equivalents - end of period	$ 4,690,891	$ 4,254,105	$ 2,420,378

The Commission's available cash and cash equivalents increased from $4.3 million at the end of 2013 to $4.7 million at the end of 2014.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2014, the Commission expended $7.7 million on capital activities from grant funds. This amount included $1.5 million for buses, $1.8 million for shelters and signage, $1.3 million for building renovations and improvements, $2.1 million for garage equipment, and $1.0 million for other capital items.

Capital asset acquisitions and improvements exceeding $5,000 are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including Federal grants with matching State grants and local funds. Additional information about HRT's capital assets can be found in Note 6 to the financial statements

Debt

At June 30, 2014, the Commission owed $13,500,000 against its $17,000,000 revolving line of credit, primarily due to the timing of government receivables.

On June 1, 2006, the Commission entered into a financing arrangement with the Virginia Resources Authority (VRA), whereby VRA provided $12,770,000 of proceeds from a bond issuance to the Commission for the purchase of buses. Annual debt service began October 1, 2006, and the debt 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, 2014, the Commission owed $7,610,000 on these bonds, with $1,780,000 of principal payments due in fiscal year 2015. More detailed information about HRT's long-term liabilities is presented in Note 9 to the consolidated financial statements.

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 revenue recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and except land are depreciated over their useful lives. Certain amounts are restricted for debt service and, where applicable, for construction activities. See the notes to the consolidated basic financial statements for a summary of the Commission's significant accounting policies.

Request for Information

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

Consolidated Financial Statements

Transportation District Commission of Hampton Roads

Consolidated Statements of Net Position

June 30,	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 4,690,891	$ 4,254,105
Due from governments	14,587,838	11,149,996
Accounts receivable	430,281	616,799
Inventories	4,437,753	3,335,430
Prepaid expenses	2,245,662	1,923,085
Total current assets	26,392,425	21,279,415
Noncurrent Assets.		
Capital assets - net of accumulated depreciation	337,811,975	358,553,259
Intangible assets - net	615,035	634,198
Total noncurrent assets	338,427,010	359,187,457
	$ 364,819,435	$ 380,466,872
Liabilities and Net Position		
Current liabilities		
Notes payable - bank	$ 13,500,000	$ 11,100,000
Current portion of long-term debt	1,780,000	1,705,000
Acounts payable	4,808,139	3,521,938
Accrued expenses	3,661,428	2,444,596
Self-insurance liability	3,531,587	3,333,941
Advanced capital contributions	2,682,351	2,141,490
Total current liabilities	29,963,505	24,246,965
Long-term debt	5,830,000	7,610,000
Total liabilities	35,793,505	31,856,965
Net position		
Investment in capital assets	330,817,010	349,872,457
Unrestricted	(4,322,667)	(2,396,171)
Restricted for self-insurance liability	2,531,587	1,133,621
Total net position	329,025,930	348,609,907
	$ 364,819,435	$ 380,466,872

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,	2014	2013
Operating revenue		
Passenger fares	$ 16,847,734	$ 15,059,102
Charters and contracts	175,422	18
Vanpool rentals	128,864	177,911
Auxiliary	914,629	1,005,820
Nontransportation	197,249	184,424
	18,263,898	16,427,275
Operating expenses		
Labor	38,365,599	37,029,933
Fringe benefits	17,881,389	15,935,969
Depreciation and amortization	28,280,028	30,582,193
Materials and supplies	14,419,137	14,079,082
Purchase of transportation services	8,664,786	8,320,274
Contractual services	6,328,661	5,765,101
Insurance - net of ordinary recoveries	3,469,574	4,308,865
Utilities	1,402,569	1,361,074
Other	1,001,624	1,285,981
	119,813,367	118,668,472
Operating loss before subsidies and grants	(101,549,469)	(102,241,197)
Subsidies and grants	74,907,981	71,304,102
Operating loss before other income (expenses)	(26,641,488)	(30,937,095)
Other income (expenses)		
Interest income	2,079	4,760
Interest expense	(539,967)	(631,645)
Gain (loss) on sale of capital assets	(8,313)	25,093
Noncapitalized grant expenditures	(10,201,366)	(7,802,976)
	(10,747,567)	(8,404,768)
Loss before proceeds from capital grants	(37,389,055)	(39,341,863)
Proceeds from capital grants	17,805,078	15,764,870
Changes in net position	(19,583,977)	(23,576,993)
Net position - beginning of year	348,609,907	372,186,900
Net position - end of year	$ 329,025,930	$ 348,609,907

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,	2014	2013
Cash flows from operating activities		
Receipts from customers and users	$ 18,450,416	$ 16,564,681
Payments to suppliers for goods and services	(35,227,404)	(38,747,277)
Payments to employees	(55,030,156)	(53,783,636)
Net cash from operating activities	(71,807,144)	(75,966,232)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	74,907,981	71,304,102
Increase in note payable - bank	2,400,000	1,600,000
Net cash from noncapital financing activities	77,307,981	72,904,102
Cash flows from capital and related financing activities		
Increase in advanced capital contributions	540,861	(82,990)
Interest expense	(539,967)	(631,645)
Acquisition of capital assets and intangible assets	(7,696,770)	(8,013,484)
Noncapitalized grant expenditures	(10,201,366)	(7,802,976)
Proceeds from disposition of capital assets	-	25,093
Proceeds from capital grants	14,536,112	23,027,099
Payments on long-term debt	(1,705,000)	(1,630,000)
Net cash from capital and related financing activities	(5,066,130)	4,891,097
Cash flows from investing activities		
Interest income	2,079	4,760
Net change in cash and cash equivalents	436,786	1,833,727
Cash and cash equivalents - beginning of year	4,254,105	2,420,378
Cash and cash equivalents - end of year	$ 4,690,891	$ 4,254,105

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

Consolidated Statements of Cash Flows

Years Ended June 30,	2014	2013
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$ (101,549,469)	$ (102,241,197)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	28,280,028	30,582,193
Change in:		
Accounts receivable	186,518	137,406
Inventories	(1,102,323)	(799,076)
Prepaid expenses	(322,577)	170,050
Accounts payable	1,286,201	(2,106,728)
Accrued expenses	1,216,832	(817,734)
Self-insurance liability	197,646	(891,146)
Net cash from operating activities	$ (71,807,144)	$ (75,966,232)

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, 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; restricted for self-insurance; and unrestricted. Invested in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to capital expenditures. The Commissions' restricted amounts for self-insurance are expendable and relate to amounts restricted for the self-insurance liability. Unrestricted amounts may be designated for specific purposes by action of management or the board of commissioners.

Budgets and Budgetary Accounting

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

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

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

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

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

Estimates

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

Advertising Costs

Advertising costs are charged to operations when incurred. For 2014 and 2013, $265,775 and $379,867, respectively, of advertising costs were charged to operations.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 13, 2014**,** the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2014 and 2013, the carrying value of the Commission's deposits with banks was $1,545,102 and $1,045,671, respectively, and the bank balances were $2,701,914 and $2,609,513, 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, 2014 and 2013, the Commission had $2,766,153 and $2,829,189, respectively, invested in money market funds. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

Investments

Investment Policy

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

The Policy establishes an investment committee consisting of the Chief Financial Officer, 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 not less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

As of June 30, 2014 and 2013, 100% of the Commission's cash equivalents were invested in money market funds and the State Treasurers Local Government Investment Pool.

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

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

Concentration of Credit Risk

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

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

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

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
2014	
Money market funds - Virginia LGIP	$ 379,636
Other money market funds	2,766,153
Total cash equivalents	3,145,789
Total bank deposits	1,545,102
Total cash and cash equivalents	$ 4,690,891
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

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:

	2014	**2013**
Federal Transit Administration	$ 11,454,175	$ 7,338,161
Commonwealth of Virginia	888,384	1,386,233
Local governments	2,245,279	2,425,602
	$ 14,587,838	$ 11,149,996

5. Inventories

Inventories consisted of the following:

	2014	2013
Bus and service vehicle parts	$ 2,739,614	$ 2,490,029
Light rail parts	1,522,943	675,606
Fuel and oil	175,196	169,795
	$ 4,437,753	$ 3,335,430

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	$ 9,020,378	$ -	$ -	$ 9,020,378
Construction in process:				
Buildings and improvements	1,189,808	807,082	(1,996,892)	-
Equipment	73,784	1,401,888	(1,475,672)	-
Other	1,819,654	1,095,052	(532,022)	2,382,684
Total capital assets not being depreciated	12,103,624	3,304,022	(4,004,586)	11,403,060
Capital assets being depreciated				
Buses	91,173,909	1,517,122	(467,013)	92,224,018
Buildings and improvements	94,300,590	1,341,181	-	95,641,771
Equipment	25,593,902	2,314,236	(7,312)	27,900,826
Ferries and docks	6,529,541	488,912	-	7,018,453
Other	10,805,186	1,935,204	-	12,740,390
Vehicles	6,565,464	99,781	-	6,665,245
Intangibles	8,958,795	532,022	-	9,490,817
Light rail	256,096,178	-	-	256,096,178
Total capital assets being depreciated	500,023,565	8,228,458	(474,325)	507,777,698
Less accumulated depreciation and amortization for:				
Buses	54,432,802	6,356,843	(458,700)	60,330,945
Buildings and improvements	25,054,053	4,679,352	-	29,733,405
Equipment	20,164,357	2,151,943	(7,312)	22,308,988
Ferries and docks	5,431,225	234,550	-	5,665,775
Other	8,991,822	906,303	-	9,898,125
Vehicles	5,775,228	408,207	-	6,183,435
Intangibles	8,324,597	551,186	-	8,875,783
Light rail	24,765,648	12,991,644	-	37,757,292
Total accumulated depreciation and amortization	152,939,732	28,280,028	(466,012)	180,753,748
Total capital assets being depreciated - net	347,083,833	(20,051,570)	(8,313)	327,023,950
Total capital assets - net	$ 359,187,457	$ (16,747,548)	$ (4,012,899)	$ 338,427,010

7. Unearned Reimbursements - Net

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

	2014	2013
City of Chesapeake	$ 53,594	$ (153,278)
City of Hampton	72,362	324,956
City of Newport News	(4,821)	300,517
City of Norfolk	78,353	(132,233)
City of Portsmouth	(17,797)	(167,693)
City of Virginia Beach	(181,059)	(193,684)
	$ 632	$ (21,415)

For 2014 and 2013, the amounts owed by participating municipalities are included in due from governments in the consolidated statements of net position.

8. Notes Payable - Bank

The Commission has a revolving line of credit of $17,000,000, which matures January 31, 2015. Advances on the lines of credit were collateralized by the pledging of all revenue, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 77% of the London Interbank Offered Rate (LIBOR) plus 166 basis points with a floor of 2%, (2% at June 30, 2014). At June 30, 2014 and 2013, the Commission owed $13,500,000 and $11,100,000, respectively, against the lines of credit.

9. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	2014	2013
Balance - July 1	$ 9,315,000	$ 10,945,000
Increases	-	-
Decreases	(1,705,000)	(1,630,000)
Balance - June 30	$ 7,610,000	$ 9,315,000
Amount due within one year	$ 1,780,000	$ 1,705,000

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
2015	$ 1,780,000	$ 284,176
2016	1,860,000	205,642
2017	3,970,000	154,321
	$ 7,610,000	$ 644,139

10. Operating Lease

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2014 and 2013, lease expense was $87,550 and $85,000, respectively.

Future minimum lease payments under these leases are as follows:

2015	$ 60,118

11. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	2014	**2013**
Federal	$ 16,484,429	$ 23,465,658
State	20,873,749	17,374,018
Local	37,549,803	30,464,426
	$ 74,907,981	$ 71,304,102

12. Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2014 and 2013, contributions received from local governments exceeded amounts expended by $2,682,351 and $2,141,490, respectively, and are shown in the accompanying consolidated statements of net position as advanced capital contributions.

13. Defined Benefit Pension Plans

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

A. Virginia Retirement System

Hampton Roads Transit contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple employer defined benefit plan administered by VRS. 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.

Within the VRS plan, the System administers three different defined benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About VRS Plan 2** VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	**Eligible Members** Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as VRS Plan 1.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as VRS Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

		Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as VRS Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	**Service Retirement Multiplier** Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as VRS Plan 1 **Exceptions to COLA Effective Dates:** Same as VRS Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as VRS Plan 1 and VRS Plan 2. **Exceptions to COLA Effective Dates:** Same as VRS Plan 1 and VRS Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as VRS Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as VRS Plan 1. **Defined Contribution Component:** Not applicable.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2013-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. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. 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, 2014 and 2013, was 6.20% and 5.99%, respectively.

b) Annual Pension Cost

For the fiscal years ended June 30, 2014 and 2013, the Commissions annual pension cost of $924,593 and $937,711, respectively was equal to the Commission's required and actual contributions.

Three-Year Trend Information for Authorities and Commissions

Fiscal Year Ending	Annual Pension Cost (APC)	*Percentage of APC Contributed*	Net Pension Obligation
June 30, 2014	$924,593	100%	$ -0-
June 30, 2013	$937,711	100%	$ -0-
June 30, 2012	$876,687	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, 2014, for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

c) Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 89.71% funded. The actuarial accrued liability for benefits was $28,758,034, and the actuarial value of assets was $25,800,234, resulting in an unfunded actuarial accrued liability (UAAL) of $2,957,800. The covered payroll (annual payroll of active employees covered by the plan) was $15,384,007, and ratio of the UAAL to the covered payroll was 19.23%.

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

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, 2013	$ 25,800,234	$ 28,758,034	$ (2,957,800)	89.71%	$ 15,384,007	(19.23%)
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%)

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. The Plan is a single employer defined benefit plan administered by the Transportation District Commission of Hampton Roads.

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, 2013 through June 30, 2014, the Commission's actual contribution was $1,765,325. The required contribution was determined as part of the December 31, 2013, 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	$	2,188,775	N/A		N/A
June 30, 2013	$	1,851,956	95.5%	$	84,871
June 30, 2012	$	1,502,210	108.5%	$	(128,264)

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, 2014	$	49,566,318	$	59,651,486	$	(10,085,168)	83.09%	$	27,075,414	(37.25%)
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, 2014
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

14. 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, 2014 and 2013, the Commission has accrued $1,110,263 and $1,077,814, respectively, for compensated absences.

15. Contingencies

Self-Insurance

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

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

Workers' Compensation Insurance

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

Federally Assisted Grant Programs

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

City of Portsmouth

Included in Due from Governments - local governments is approximately $1.1 million in both 2014 and 2013 owed by the City of Portsmouth for route service provided to Portsmouth that they are disputing. Both parties have unsuccessfully tried to resolve the dispute, and the matter is not currently scheduled for trial until Spring 2015.

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Required Supplementary Information

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2014

	Actual	Budgeted	Actual Over (Under) Budget
Revenue			
Passenger fares	$ 16,847,734	$ 19,300,000	$ (2,452,266)
Charters and contracts	175,422	-	175,422
Vanpool rentals	128,864	-	128,864
Auxiliary	914,629	-	914,629
Nontransportation	197,249	-	197,249
Total revenue	18,263,898	19,300,000	(1,036,102)
Subsidies and grants			
Municipal subsidies	37,549,803	38,000,000	(450,197)
State operating subsidies	20,873,749	17,400,000	3,473,749
Federal operating grants	16,484,429	22,000,000	(5,515,571)
Total subsidies and grants	74,907,981	77,400,000	(2,492,019)
Total revenue, subsidies and grants	$ 93,171,879	$ 96,700,000	$ (3,528,121)

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	$ 18,263,898
Subsidies and grants	74,907,981
	$ 93,171,879

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2014

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	$ 56,246,988	$ 56,000,000	$ 246,988
Materials and supplies	14,419,137	15,200,000	(780,863)
Insurance - net of ordinary recoveries	4,867,540	7,200,000	(2,332,460)
Purchase of transportation services	8,664,786	8,300,000	364,786
Contractual services	6,328,661	7,200,000	(871,339)
Utilities	1,402,569	1,400,000	2,569
Other	1,001,624	1,400,000	(398,376)
Total transit activity expenses before depreciation and amortization	$ 92,931,305	$ 96,700,000	$ (3,768,695)

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	$ 92,931,305
Depreciation and amortization	28,280,028
Self-insurance net increase in net position	(1,397,966)
	$ 119,813,367

Statistical Section

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

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

Transportation District Commission of Hampton Roads **Table I**

Condensed Statements of Net Position

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005 [1]
Net position										
Investment in capital assets	$330,817,010	$349,872,457	$370,882,384	$362,464,665	$275,482,561	$178,363,138	$75,055,817	$39,215,630	$42,380,359	$49,259,964
Unrestricted	(4,322,667)	(2,396,171)	358,355	322,598	40,836	2,273,787	1,949,808	2,277,306	2,625,830	2,609,307
Commission designated for self-insurance liability	2,531,587	1,133,621	946,161	1,196,616	(705,515)	(1,179,259)	(1,437,514)	(1,500,386)	(1,161,813)	214,699
	$329,025,930	$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

1 Nine months period ended September 30, 2005

Transportation District Commission of Hampton Roads **Table II**

Net Position and Changes in Net Position

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenue										
Passenger fares	$ 16,847,734	$ 15,059,102	$ 16,563,517	$ 15,329,690	$ 14,751,980	$ 16,953,602	$15,671,379	$15,389,194	$14,851,755	$11,946,259
Charters and contracts	175,422	18	13,742	19,200	76,800	125,905	48,872	69,046	104,876	118,095
Vanpool rentals	128,864	177,911	170,138	174,831	177,058	168,817	144,734	129,519	116,131	69,551
Auxiliary	914,629	1,005,820	731,827	291,817	269,226	276,053	370,495	315,411	441,190	429,110
Nontransportation	197,249	184,424	189,229	338,116	266,398	150,813	128,050	120,963	154,474	93,701
Total operating revenue	18,263,898	16,427,275	17,668,453	16,153,654	15,541,462	17,675,190	16,363,530	16,024,133	15,668,426	12,656,716
Operating expenses										
Labor	38,365,599	37,029,933	36,459,948	31,358,906	30,574,713	29,165,179	26,477,853	25,589,158	23,577,151	17,436,678
Fringe benefits	17,881,389	15,935,969	15,919,415	14,841,910	14,947,924	13,955,007	13,197,440	12,066,929	11,536,164	8,596,354
Depreciation and amortization	28,280,028	30,582,193	23,535,796	10,561,359	11,956,938	10,607,127	10,153,014	7,253,593	9,125,980	9,533,434
Materials and supplies	14,419,137	14,079,082	14,309,506	12,123,871	11,370,908	14,554,686	11,790,604	11,282,036	10,865,827	6,711,999
Purchase of transportation services	8,664,786	8,320,274	8,084,487	8,229,824	7,317,820	6,700,651	5,981,429	5,673,287	5,718,726	4,273,673
Contractual services	6,328,661	5,765,101	5,665,506	4,997,821	4,485,524	3,806,872	3,377,753	3,716,817	3,377,825	2,407,980
Insurance - net of ordinary recoveries	3,469,574	4,308,865	7,196,743	3,274,247	3,765,591	3,490,501	2,989,774	2,789,248	3,459,879	1,886,158
Utilities	1,402,569	1,361,074	1,312,737	736,784	678,685	790,534	720,958	721,895	809,020	586,301
Other	1,001,624	1,285,981	1,083,639	960,543	669,995	1,504,933	1,574,515	922,095	1,043,342	808,159
Total operating expenses	119,813,367	118,668,472	113,567,777	87,085,265	85,768,098	84,575,490	76,263,340	70,015,058	69,513,914	52,240,736
Operating loss before subsidies and grants	(101,549,469)	(102,241,197)	(95,899,324)	(70,931,611)	(70,226,636)	(66,900,300)	(59,899,810)	(53,990,925)	(53,845,488)	(39,584,020)
Subsidies and grants	74,907,981	71,304,102	71,066,933	60,555,809	58,020,430	57,263,369	50,394,765	45,859,566	42,933,286	29,289,271
Operating loss before other income (expenses)	(26,641,488)	(30,937,095)	(24,832,391)	(10,375,802)	(12,206,206)	(9,636,931)	(9,505,045)	(8,131,359)	(10,912,202)	(10,294,749)
Other income (expenses)										
Interest income	2,079	4,760	3,109	11,460	13,535	83,469	406,255	759,618	135,623	25,602
Interest expense	(539,967)	(631,645)	(702,559)	(725,536)	(911,415)	(877,316)	(846,964)	(809,095)	(129,102)	(47,024)
Gain (loss) on sale of capital assets	(8,313)	25,093	84,969	165,079	78,881	(205,541)	83,910	40,367	81,715	-
Noncapitalized grant expenditures	(10,201,366)	(7,802,976)	(11,313,086)	(11,680,362)	(7,210,393)	(7,966,713)	(9,576,307)	(10,732,282)	(6,971,868)	(4,015,123)
	(10,747,567)	(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)
Loss before proceeds from capital grants	(37,389,055)	(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)
Proceeds from capital grants	17,805,078	15,764,870	44,962,979	111,771,158	115,595,814	122,492,587	55,013,712	15,020,925	9,556,240	5,878,730
Change in net position	(19,583,977)	(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)
Net position - beginning 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
Net position - end of period	$329,025,930	$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

Transportation District Commission of Hampton Roads **Table III**

Fare Structure

Year Ended June 30, 2014

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 **Table IV**

Ratio of Outstanding Debt

Last Ten Fiscal Years

Fiscal Year	Virginia Series 2006A	Virginia Series 2007A	Lease Ford Motor	Lease 401	Lease Sams	Total	Percentage Unlinked	Unlinked Passenger Trips
2005	$ -	$ -	$ -	$ -	$ -	$ -	0%	$ 23,713,213.00
2006	12,770,000	-	-	-	-	12,770,000	60.0%	21,291,144
2007	12,770,000	4,975,000	-	-	-	17,745,000	74.3%	23,873,765
2008	11,830,000	4,975,000	-	12,075	-	16,817,075	64.1%	26,221,854
2009	10,855,000	4,570,000	805,000	2,415	-	16,232,415	101.8%	15,950,176
2010	9,845,000	4,150,000	385,000	-	-	14,380,000	91.3%	15,751,071
2011	8,795,000	3,710,000	-	-	404,393	12,909,393	77.6%	16,638,794
2012	7,700,000	3,245,000	-	-	319,393	11,264,393	61.%	18,460,946
2013	6,555,000	2,760,000	-	-	234,393	9,549,393	50.8%	18,810,119
2014	5,355,000	2,255,000	-	-	148,543	7,758,543	44.5%	17,415,928

Demographic and Economic Statistics [1]

Last Ten Fiscal Years

Year	Population 2	Personal Income 1	Per Capita Income 1	Unemployment Rate 3
2014	1,707,369	$ -	$ -	N/A
2013	1,699,925	75,342,217	44,321	6.4%
2012	1,688,876	72,626,600	43,051	6.8%
2011	1,676,012	69,931,246	41,725	7.0%
2010	1,669,874	66,654,130	39,916	7.1%
2009	1,658,106	64,587,037	38,952	6.9%
2008	1,652,316	66,082,935	39,994	4.2%
2007	1,653,503	63,725,279	38,540	3.2%
2006	1,655,647	60,344,479	36,448	3.3%
2005	1,639,878	56,228,336	34,288	3.9%

1 Virginia Beach-Norfolk-Newport News, VA-NC MSA

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

2 Source: U. S. Census Bureau

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

N/A Not available

Principal Employers [1]

Current and Nine Years Prior

	2014 *	2005
U.S. Department of Defense	1	1
Huntington Ingalls Industries, Inc.	2	2
Sentara Healthcare	3	4
City of Virginia Beach Schools	4	3
Walmart	5	5
Riverside Regional Medical Center	6	9
City of Virginia Beach	7	8
Chesapeake City Public School Board	8	7
Norfolk City School Board	9	6
City of Norfolk	10	-
Newport News Public Schools	-	10

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

Source: Virginia Employment Commission,
Each of the Top 10 employers had 1,000+ employees.
* Data for 2014 is 1st quarter ended March 21, 2014

Demographic and Operating Statistics [1]

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cities served [1]	6	6	6	7	7	7	7	7	7	7
Square miles [1]	515	515	515	515	369	369	369	369	369	369
Number of employees: [2]										
Administrative FT	263	270	261	235	211	197	180	172	161	157
Administrative PT	85	76	81	36	27	33	42	39	68	65
Bargaining Unit FT	575	573	613	605	562	574	567	528	524	533
Bargaining Unit PT	79	103	99	134	72	72	152	134	121	131
	1,002	1,022	1,054	1,010	872	876	941	873	874	886
Maintenance facilities [1]	6	6	6	6	5	5	5	3	3	3
Gallons of diesel fuel [1]	N/A	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
Gallons of gasoline [1]	N/A	587,615	453,533	545,282	528,579	503,575	137,096	70,176	49,801	60,057
Kilowatt hours of propulsion [1, 3]	N/A	3,387,625	2,950,078	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Source - National Transit Database
2 Source - Transportation District Commission of Hampton Roads Human Resources Department
3 Light Rail started operation in FY12
N/A No information available

Transportation District Commission of Hampton Roads **Table VIII**

Operating Indicators [1]

Last Ten Fiscal Years

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
2005					
Bus	276	10,901,808	789,220	22,971,402	96,961,140
Vanpool	32	600,516	34,020	166,824	6,172,488
Demand Response	80	2,548,528	166,554	219,738	1,968,939
Ferryboat	2	12,254	5,997	355,249	177,729
Total	390	14,063,106	995,791	23,713,213	105,280,296
2006					
Bus	282	10,902,421	801,280	20,533,661	96,527,481
Vanpool	38	647,388	19,656	171,612	5,800,536
Demand Response	75	2,766,620	176,469	232,835	2,116,832
Ferryboat	2	12,290	6,119	353,036	176,544
Total	359	14,328,719	1,003,524	21,291,144	104,621,393
2007					
Bus	279	10,653,462	804,743	23,029,163	88,535,209
Vanpool	43	725,390	20,080	222,386	7,470,011
Demand Response	68	2,756,071	172,815	236,272	1,987,385
Ferryboat	2	12,376	6,188	385,944	193,128
Total	392	14,147,299	1,003,826	23,873,765	98,185,733
2008					
Bus	291	11,250,976	826,256	25,322,228	102,151,705
Vanpool	46	697,774	20,240	282,601	7,786,075
Demand Response	64	2,841,514	158,515	240,011	2,665,503
Ferryboat	2	12,285	6,116	377,014	189,642
Total	403	14,802,549	1,011,127	26,221,854	112,792,925
2009					
Bus	290	11,907,422	872,488	15,194,872	92,658,600
Vanpool	52	798,511	26,367	165,066	5,527,683
Demand Response	71	3,141,304	195,409	267,162	3,206,397
Ferryboat	2	12,050	5,814	323,076	163,504
Total	415	15,859,287	1,100,078	15,950,176	101,556,184
2010					
Bus	227	11,003,538	808,594	14,955,012	98,160,468
Vanpool	55	823,994	26,398	171,703	6,025,451
Demand Response	74	3,273,196	204,380	307,034	3,444,866
Ferryboat	2	12,491	6,218	317,322	160,289
Total	358	15,113,219	1,045,590	15,751,071	107,791,074

Operating Indicators [1]

Last Ten Fiscal Years

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
2011					
Bus	221	10,832,392	799,657	15,815,418	100,436,425
Vanpool	52	901,364	24,375	180,000	6,702,708
Demand Response	80	3,438,711	218,711	347,499	3,919,622
Ferryboat	2	12,552	5,969	295,877	149,529
Total	355	15,185,019	1,048,712	16,638,794	111,208,284
2012					
Bus	240	10,494,200	799,786	16,166,441	99,459,300
Light Rail	7	323,239	25,478	1,359,915	5,648,374
Vanpool	52	945,663	24,641	194,623	7,077,317
Demand Response	84	2,692,602	176,932	293,002	2,547,951
Demand Taxi	75	778,913	44,023	64,571	885,535
Ferryboat	2	13,479	6,407	382,394	195,216
Total	460	15,248,096	1,077,267	18,460,946	115,813,693
2013					
Bus	234	9,975,729	794,369	16,217,920	91,880,790
Light Rail	7	376,007	30,345	1,762,284	7,004,670
Vanpool	54	943,950	24,474	188,780	6,933,420
Demand Response	82	3,451,692	221,875	303,925	2,649,310
Ferryboat	2	16,995	6,118	337,210	184,794
Total	379	14,764,373	1,077,181	18,810,119	108,652,984
2014*					
Bus	233	9,975,085	740,586	15,024,190	N/A
Light Rail	6	372,032	29,810	1,587,929	N/A
Vanpool	47	828,572	21,149	159,642	N/A
Demand Response	86	2,821,403	184,814	311,789	N/A
Ferryboat	3	15,208	6,375	332,378	N/A
Total	375	14,012,300	982,734	17,415,928	N/A

1 Source: National Transit Database
* Preliminary Data
N/A Not available

Compliance Section

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

Commissioners
Transportation District Commission of Hampton Roads

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, 2014, and the related notes to the consolidated financial statements, which collectively comprise ***Transportation District Commission of Hampton Roads***' basic consolidated financial statements and have issued our report thereon dated November 13, 2014.

Internal Control over Financial Reporting

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

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

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

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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
November 13, 2014

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

Commissioners
Transportation District Commission of Hampton Roads

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, 2014. The ***Transportation District Commission of Hampton Roads'*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the ***Transportation District Commission of Hampton Roads*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

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

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

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

Dixon Hughes Goodman LLP

Newport News, Virginia
November 13, 2014

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Year	Federal Catalogue Number	Total Expenditures
<u>Department of Transportation</u>				
Direct Payments				
Federal Transit Administration Capital Improvements Grants:				
VA 04-0050	Southside Facility Project - Admin. Bldg.	2011	20.500	$ 167,470
VA 05-0045	Fixed Guideway Grant	2010	20.500	1,365,970
VA 05-0047	Fixed Guideway Grant	2011	20.500	2,130,500
VA 34-0001	FY14 5339 PM	2013	20.500	1,362,523
VA 37-X014	JARC Grant	2007	20.516	296,720
VA 37-X022	JARC Grant	2012	20.516	397,083
VA 57-X001	New Freedom Grant	2007	20.521	435,502
VA 57-X004	New Freedom Grant	2014	20.521	49,089
VA 90-X344	Capital Assistance	2009	20.500	43,612
VA 90-X359	5307 Capital Grant	2010	20.500	71,750
VA 90-X369	5307 Capital Grant	2011	20.500	254,230
VA 90-X381	5307 Preventative Maintenance	2012	20.500	1,668,321
VA 90-X395	5307 Capital Grant	2012	20.500	2,681,314
VA 95-X014	MAX/Ports Shuttle	2009	20.500	516,570
VA 95-X063	Patrick Henry Mall Transf/VB Rail Study	2009	20.500	3,259,459
VA 95-X080	CMAQ Newport News Shelters	2010	20.500	120,156
VA 95-X097	Transit Resigning	2011	20.500	285,483
VA 95-X118	Bus Refurbishment	2013	20.500	1,706,400
VA 96-X003	ARRA 5307 Grant	2009	20.500	120,812
VA 90-X410	FY 14 5307 Partial	2013	20.500	10,333,367
Total Department of Transportation				27,266,331
Passed through from Department of Rail and Public Transportation				
47012-54 Regional TDM program Traffix		2012	20.507	390,089
47014-13 Regional TDM program Traffix		2013	20.507	453,033
Total Department of Rail and Public Transportation				843,121
	Total all capital improvement grants			$ 28,109,452

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2014

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, 2014

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)

f. The dollar threshold used to distinguish between Type A and Type B programs is $843,284.

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, 2014

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

There were no prior year audit findings.

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

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

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