

Annual Financial Statements

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
HAMPTON, VIRGINIA



TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

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INTRODUCTORY SECTION

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
MEMBERS OF THE COMMISSION

JUNE 30, 2017

CHAIRMAN

James L. Wood
City of Virginia Beach

VICE – CHAIRMAN

Patricia P. Woodbury
City of Newport News

COMMISSIONERS

Robert Coleman
City of Newport News

Gaylene Kanoyton
City of Hampton

Charles B. Hunter
City of Portsmouth

Douglas W. Fuller
City of Chesapeake

Jennifer Mitchell
Virginia Department of Rail and Public Transportation

Will J. Moffett
City of Hampton

Keith Parnell
City of Norfolk

Paul R. Riddick
City of Norfolk

Amelia Ross-Hammond
City of Virginia Beach

Richard W. West
City of Chesapeake

John L. Rowe
City of Portsmouth

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
EXECUTIVE LEADERSHIP TEAM AND FINANCE STAFF

JUNE 30, 2017

EXECUTIVE LEADERSHIP TEAM

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

FINANCE STAFF

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

FINANCIAL SECTION

Report of Independent Auditor

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation District Commission of Hampton Roads (the "Commission"), as of and for the years ended June 30, 2017 and 2016, and the related notes to financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Commission's internal control over financial reporting and compliance.

Cheryl Bekant LLP

Virginia Beach, Virginia
February 6, 2018

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Transportation District Commission of Hampton Roads' ("Commission") activities and financial performance provides the reader with an introduction and overview to the basic financial statements for the year ended June 30, 2017. Following this MD&A are the basic financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the basic financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's basic financial statements, which follow this narrative.

Financial Operations Highlights

Below are highlights of the Commission's activities for fiscal year 2017.

- The decrease in net position for 2017 was \$25.4 million. The majority of the change is attributable to a decrease in capital grants proceeds from fiscal year 2016 to 2017. The additional proceeds in fiscal year 2016 were due to purchase and refurbishment of buses during that year.
- Operating revenues of \$19 million were 3% or approximately \$637 thousand less than fiscal year 2016.
- Operating expenses of \$129 million (including depreciation and amortization) increased by .4% or \$522 thousand.
- Subsidies and grants of \$80.2 million were .4% or \$324 thousand more than fiscal year 2016.
- At the end of the fiscal year, unrestricted net position deficit was \$(8.1) million, a decrease of \$2.8 million.

Overview of the Financial Statements

The Commission's basic financial statements, the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows, are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America 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 basic financial statements for a summary of the Commission's significant accounting policies.

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

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$288.1 million at June 30, 2017. A condensed summary of the Commission's net position are shown below:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets:			
Current assets	\$ 34,407,971	\$ 36,601,165	\$ 31,947,553
Capital assets, net	296,457,111	321,519,601	323,975,826
Other assets	148,474	700,637	443,710
Total Assets	<u>331,013,556</u>	<u>358,821,403</u>	<u>356,367,089</u>
Deferred outflows of resources	<u>9,606,166</u>	<u>8,994,005</u>	<u>2,980,152</u>
Liabilities:			
Current liabilities	36,857,252	37,282,243	34,389,403
Long-term liabilities	14,710,867	15,135,195	9,308,186
Total Liabilities	<u>51,568,119</u>	<u>52,417,438</u>	<u>43,697,589</u>
Deferred inflows of resources	<u>919,035</u>	<u>1,881,172</u>	<u>3,501,299</u>
Net Position:			
Net investment in capital assets	292,493,576	315,392,456	315,780,324
Restricted	3,697,854	3,373,999	3,273,422
Unrestricted	(8,058,862)	(5,249,657)	(6,905,393)
Total Net Position	<u>\$ 288,132,568</u>	<u>\$ 313,516,798</u>	<u>\$ 312,148,353</u>

The largest portion of the Commission's net position each period represents its net 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.

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

Summary of Operations and Changes in Net Position

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Operating revenue	\$ 19,027,226	\$ 19,653,463	\$ 21,304,682
Operating expenses	129,026,786	128,504,727	126,510,942
Operating loss before subsidies and grants	(109,999,560)	(108,851,264)	(105,206,260)
Subsidies and grants	80,224,573	79,900,451	80,140,500
Operating loss before other expenses	(29,774,987)	(28,950,813)	(25,065,760)
Other expenses	(10,881,839)	(15,079,607)	(7,160,354)
Loss before proceeds from capital grants	(40,656,826)	(44,030,420)	(32,226,114)
Proceeds from capital grants	15,272,596	45,398,865	19,936,757
Change in net position	<u>\$ (25,384,230)</u>	<u>\$ 1,368,445</u>	<u>\$ (12,289,357)</u>

Revenue

A summary of revenue is as follows:

	2017 Amount	Percent of Total	2016 Amount	Percent of Total	2015 Amount	Percent of Total
Operating:						
Passenger fares	\$ 15,671,061	87.4%	\$ 16,516,616	78.4%	\$ 17,058,634	76.0%
Chargers and contracts	2,149,290	12.0%	2,148,932	10.2%	2,790,843	12.4%
Vanpool rentals	-	0.0%	-	0.0%	99,010	0.4%
Auxiliary	1,124,275	6.3%	916,238	4.4%	1,166,888	5.2%
Nontransportation	82,600	0.5%	71,677	0.3%	189,307	0.8%
Total Operating	<u>19,027,226</u>	<u>106.2%</u>	<u>19,653,463</u>	<u>93.3%</u>	<u>21,304,682</u>	<u>95.0%</u>
Nonoperating:						
Gain (loss) on sale of capital assets	(303,634)	-1.7%	1,497,602	7.1%	(56,954)	-0.3%
Interest income	17,940	0.1%	12,536	0.1%	2,840	0.0%
Pension benefit (expense)	(819,625)	-4.6%	(96,529)	-0.5%	1,180,335	5.3%
Total Nonoperating	<u>(1,105,319)</u>	<u>-6.2%</u>	<u>1,413,609</u>	<u>6.7%</u>	<u>1,126,221</u>	<u>5.0%</u>
Total Revenue	<u>\$ 17,921,907</u>	<u>100.0%</u>	<u>\$ 21,067,072</u>	<u>100.0%</u>	<u>\$ 22,430,903</u>	<u>100.0%</u>

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

Expenses

A summary of expenses is as follows:

	2017 Amount	Percent of Total	2016 Amount	Percent of Total	2015 Amount	Percent of Total
Operating:						
Labor	\$ 48,420,295	35.5%	\$ 47,684,198	32.9%	\$ 39,565,925	29.4%
Fringe benefits	15,097,126	11.1%	14,011,406	9.7%	18,679,778	13.9%
Depreciation and amortization	30,433,974	22.3%	29,807,263	20.6%	28,913,830	21.4%
Materials and supplies	11,101,816	8.1%	14,377,178	9.9%	15,355,599	11.4%
Insurance, net of ordinary recoveries	4,220,619	3.1%	4,227,990	2.9%	4,860,863	3.6%
Purchase of transportation services	8,321,926	6.1%	8,236,318	5.7%	8,364,927	6.2%
Contractual services	8,252,631	6.0%	7,176,841	4.9%	7,212,163	5.4%
Utilities	1,307,840	1.0%	1,209,725	0.8%	1,242,038	0.9%
Other	1,870,559	1.4%	1,773,808	1.2%	2,315,819	1.7%
Total Operating	129,026,786	94.6%	128,504,727	88.6%	126,510,942	93.9%
Nonoperating:						
Interest expense	471,920	0.3%	516,644	0.4%	538,750	0.4%
Noncapitalized grant expenditures	7,011,742	5.1%	15,976,572	11.0%	7,747,825	5.7%
Total Nonoperating	7,483,662	5.4%	16,493,216	11.4%	8,286,575	6.1%
Total Expenses	\$ 136,510,448	100.0%	\$ 144,997,943	100.0%	\$ 134,797,517	100.0%

Capital Assets

During the year ended June 30, 2017, the Commission expended \$4.8 million on completed capital activities from grant and operating funds. This amount included \$2.4 million for buses, \$2.0 million for ferries and docks, \$295 thousand for buildings and improvements, and \$82 thousand for other capital items.

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

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

At June 30, 2017, the Commission owed \$17,000,000 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, 2017, the Commission owed \$2,030,000 on these bonds, with \$2,030,000 of principal payments due in fiscal year 2018. More detailed information about Hampton Roads Transit's long-term liabilities is presented in Note 9 to the financial statements.

Request for Information

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

FINANCIAL STATEMENTS

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF NET POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,200,849	\$ 5,947,649
Due from governments	18,636,463	23,643,374
Accounts receivable	421,886	880,540
Inventories	6,166,333	5,759,031
Prepaid expenses	1,982,440	370,571
Total Current Assets	<u>34,407,971</u>	<u>36,601,165</u>
Noncurrent Assets:		
Capital assets, net	296,457,111	321,519,601
Intangible assets, net	148,474	294,698
Net pension asset	-	405,939
Total Noncurrent Assets	<u>296,605,585</u>	<u>322,220,238</u>
Total Assets	<u>331,013,556</u>	<u>358,821,403</u>
Deferred Outflows of Resources:		
Projected and actual earnings	2,779,775	3,435,716
Changes in assumptions	2,910,602	2,502,962
Subsequent contributions	3,366,457	3,055,327
Expected and actual experience	549,332	-
Total Deferred Outflows of Resources	<u>9,606,166</u>	<u>8,994,005</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 340,619,722</u>	<u>\$ 367,815,408</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Notes payable - bank	\$ 17,000,000	\$ 17,000,000
Current portion of long-term debt	2,030,000	1,940,000
Current portion of long-term capital lease	382,312	369,834
Accounts payable	3,319,401	6,231,361
Accrued expenses	4,253,796	3,612,302
Self-insurance liability	4,697,854	4,373,999
Advanced capital contributions	5,173,889	3,754,747
Total Current Liabilities	<u>36,857,252</u>	<u>37,282,243</u>
Other Liabilities:		
Long-term capital lease	1,699,697	2,082,009
Long-term debt	-	2,030,000
Net pension liability	13,011,170	11,023,186
Total Other Liabilities	<u>14,710,867</u>	<u>15,135,195</u>
Total Liabilities	<u>51,568,119</u>	<u>52,417,438</u>
Deferred Inflows of Resources:		
Excepted and actual experience	919,035	1,044,340
Projected and actual earnings	-	836,832
Total Liabilities and Deferred Inflows of Resources	<u>52,487,154</u>	<u>54,298,610</u>
Net Position:		
Net investment in capital assets	292,493,576	315,392,456
Restricted	3,697,854	3,373,999
Unrestricted	(8,058,862)	(5,249,657)
Total Net Position	<u>288,132,568</u>	<u>313,516,798</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 340,619,722</u>	<u>\$ 367,815,408</u>

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

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenues:		
Passenger fares	\$ 15,671,061	\$ 16,516,616
Charters and contracts	2,149,290	2,148,932
Auxiliary	1,124,275	916,238
Nontransportation	82,600	71,677
Total Operating Revenues	<u>19,027,226</u>	<u>19,653,463</u>
Operating Expenses:		
Labor	48,420,295	47,684,198
Fringe benefits	15,097,126	14,011,406
Depreciation and amortization	30,433,974	29,807,263
Materials and supplies	11,101,816	14,377,178
Purchase of transportation services	8,321,926	8,236,318
Contractual services	8,252,631	7,176,841
Insurance, net of ordinary recoveries	4,220,619	4,227,990
Utilities	1,307,840	1,209,725
Other	1,870,559	1,773,808
Total Operating Expenses	<u>129,026,786</u>	<u>128,504,727</u>
Operating loss before subsidies and grants	(109,999,560)	(108,851,264)
Subsidies and grants	80,224,573	79,900,451
Operating loss before other expenses	<u>(29,774,987)</u>	<u>(28,950,813)</u>
Other Income (Expenses):		
Interest income	17,940	12,536
Interest expense	(471,920)	(516,644)
Gain (loss) on sale of capital assets	(303,634)	1,497,602
Pension expense	(819,625)	(96,529)
Contributions to other governments	(2,292,858)	-
Noncapitalized grant expenditures	(7,011,742)	(15,976,572)
Total Other Expenses, net	<u>(10,881,839)</u>	<u>(15,079,607)</u>
Loss before proceeds from capital grants	(40,656,826)	(44,030,420)
Proceeds from capital grants	15,272,596	45,398,865
Change in net position	(25,384,230)	1,368,445
Net position, beginning of year	<u>313,516,798</u>	<u>312,148,353</u>
Net position, end of year	<u>\$ 288,132,568</u>	<u>\$ 313,516,798</u>

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

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 19,485,880	\$ 19,505,785
Payments to suppliers for goods and services	(39,682,667)	(36,201,773)
Payments to employees	(62,875,927)	(61,990,501)
Net cash used in operating activities	<u>(83,072,714)</u>	<u>(78,686,489)</u>
Cash flows from noncapital financing activities:		
Operating subsidies and grants received	80,224,573	79,900,451
Net increase in note payable - bank	-	2,650,000
Net cash provided by operating activities	<u>80,224,573</u>	<u>82,550,451</u>
Cash flows from capital and related financing activities:		
Increase in advanced capital contributions	1,419,142	336,425
Interest expense	(471,920)	(516,644)
Acquisition of capital assets and intangible assets	(5,528,894)	(27,709,665)
Noncapitalized grant expenditures	(9,304,600)	(15,976,572)
Proceeds from disposition of capital assets	-	1,908,712
Proceeds from capital grants	20,279,507	43,014,634
Payments on long-term capital lease	(369,834)	(357,369)
Payments on long-term debt	(1,940,000)	(1,860,000)
Net cash provided by (used in) capital and related financing activities	<u>4,083,401</u>	<u>(1,160,479)</u>
Cash flows from investing activities:		
Interest income	<u>17,940</u>	<u>12,536</u>
Net change in cash and cash equivalents	1,253,200	2,716,019
Cash and cash equivalents, beginning of year	<u>5,947,649</u>	<u>3,231,630</u>
Cash and cash equivalents, end of year	<u>\$ 7,200,849</u>	<u>\$ 5,947,649</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss before subsidies and grants to net cash used in operating activities:		
Operating loss before subsidies and grants	\$ (109,999,560)	\$ (108,851,264)
Adjustments to reconcile operating loss before subsidies and grants to net cash used in operating activities:		
Depreciation and amortization	30,433,974	29,807,263
Change in:		
Accounts receivable	458,654	(147,678)
Inventories	(407,302)	(735,325)
Prepaid expenses	(1,611,869)	1,329,641
Accounts payable	(2,911,960)	105,194
Accrued expenses	641,494	(294,897)
Self-insurance liability	323,855	100,577
Net cash used in operating activities	<u>\$ (83,072,714)</u>	<u>\$ (78,686,489)</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Organization and nature of business

The Transportation District Commission of Hampton Roads (the “Commission”), commonly referred to as Hampton Roads Transportation or HRT, 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.

Note 2—Summary of significant accounting policies

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

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

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

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

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

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

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

Capital Assets – Capital assets, which include infrastructure, equipment, property (e.g., buses, ferries and docks, trolleys, and light rail vehicles), and intangible assets (e.g., computer software) are reported at cost and depreciated using the straight-line method based on estimated useful lives of 3-50 years. Capital assets other than equipment, property, and infrastructure assets are defined by Hampton Roads Transit (“HRT”) as an asset with initial individual cost of \$5,000 or more with a useful life greater than one year. Donated assets are valued at their estimated acquisition value on the date donated. The cost of repairs and maintenance that do not add value or extend an asset’s life are not capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized. Most property and equipment is acquired with grant proceeds so the method and use of proceeds from disposition of property and equipment is restricted by the grant requirements.

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

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

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

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

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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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

Budgets and Budgetary Accounting – The Commission’s annual budget for transit activities is a management tool that assists users in analyzing financial activity for its 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 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.

Note 3—Cash and cash equivalents and investments

Cash and cash equivalents

Deposits – At June 30, 2017 and 2016, the carrying value of the Commission’s deposits with banks was \$4,027,656 and \$2,782,919, respectively, and the bank balances were \$7,371,433 and \$3,330,949, 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, 2017 and 2016, the Commission had \$2,765,162 and \$2,783,442, respectively, invested in money market funds, which are valued at amortized cost. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

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). Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The LGIP values portfolio securities by the amortized cost method and on a monthly basis this valuation is compared to current market to monitor any variance. The LGIP is in compliance with the requirements of GAAP and elects to measure its investments at amortized cost for financial reporting. Therefore, participants in LGIP should also measure their investments in the LGIP at amortized cost for financial reporting. The Policy establishes an investment committee consisting of the Chief Financial Officer, the President and Chief Executive Officer. The members of this committee meet quarterly to determine general investment strategies and to monitor results. The investment committee includes in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to Commission funds, authorized depositories and dealers, and the target rate of return on the investment portfolio.

Credit Risk – As required by state statute, the Policy requires that commercial paper have a short-term debt rating of not less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s, and Fitch Investor’s Service. Corporate notes, negotiable certificates of deposit, and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service.

At June 30, 2017 and 2016, 100% of the Commission’s cash equivalents were invested in money market funds and the LGIP.

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.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

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, if applicable, of the Commission’s investments were as follows:

Investment Type	Fair Value 2017	Fair Value 2016
Other money market funds	<u>\$ 2,765,162</u>	<u>\$ 2,783,442</u>

Fair Value – The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy base on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Commission’s investments in other money market funds are considered to be Level 1.

Custodial Credit Risk – The assets of the Commission shall be secured through third party custody and safekeeping procedures. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded to protect against possible embezzlement and malfeasance. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping.

Note 4—Due from governments

Government receivables consisted of the following:

	2017	2016
Federal Transit Administration	\$ 14,708,645	\$ 15,286,115
Commonwealth of Virginia	1,664,522	2,571,182
Local governments	<u>2,263,296</u>	<u>5,786,077</u>
	<u>\$ 18,636,463</u>	<u>\$ 23,643,374</u>

Note 5—Inventories

Inventories consisted of the following:

	2017	2016
Bus and service vehicle parts	\$ 3,946,444	\$ 3,759,055
Light rail parts	2,026,340	1,792,645
Fuel and oil	<u>193,549</u>	<u>207,331</u>
	<u>\$ 6,166,333</u>	<u>\$ 5,759,031</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 6—Capital and intangible assets

A summary of changes in capital assets follows:

	Balance			Balance
	June 30, 2016	Increases	Decreases	June 30, 2017
Capital assets not being depreciated:				
Land	\$ 8,900,798	\$ -	\$ -	\$ 8,900,798
Construction in process:				
Buildings and improvements	3,964,483	5,498,873	3,684,436	5,778,920
Other	3,190,585	1,936,752	3,068,922	2,058,415
Total capital assets not being depreciated	<u>16,055,866</u>	<u>7,435,625</u>	<u>6,753,358</u>	<u>16,738,133</u>
Capital assets being depreciated:				
Buses	119,709,572	2,352,731	4,840,484	117,221,819
Buildings and improvements	88,008,414	294,682	2,794,446	85,508,650
Equipment	25,616,673	-	186,676	25,429,997
Ferries and docks	7,259,864	2,042,772	1,801,005	7,501,631
Other	9,032,076	82,603	-	9,114,679
Vehicles	8,225,437	-	22,024	8,203,413
Intangibles	4,811,959	-	254,167	4,557,792
Light rail	256,096,446	-	-	256,096,446
Total capital assets being depreciated	<u>518,760,441</u>	<u>4,772,788</u>	<u>9,898,802</u>	<u>513,634,427</u>
Less accumulated depreciation and amortization for:				
Buses	73,435,244	8,498,956	4,782,473	77,151,727
Buildings and improvements	30,983,043	4,099,386	2,635,590	32,446,839
Equipment	22,043,860	1,077,342	186,678	22,934,524
Ferries and docks	6,171,732	196,988	1,801,005	4,567,715
Other	4,994,703	1,213,840	-	6,208,543
Vehicles	5,873,916	1,606,425	22,024	7,458,317
Intangibles	4,517,261	146,222	254,166	4,409,317
Light rail	64,982,247	13,607,746	-	78,589,993
Total accumulated depreciation and amortization	<u>213,002,006</u>	<u>30,446,905</u>	<u>9,681,936</u>	<u>233,766,975</u>
Total capital assets being depreciated - net	<u>305,758,435</u>	<u>(25,674,117)</u>	<u>216,866</u>	<u>279,867,452</u>
Total capital assets - net	<u>\$321,814,301</u>	<u>\$ (18,238,492)</u>	<u>\$ 6,970,224</u>	<u>\$296,605,585</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 6—Capital and intangible assets (continued)

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 9,008,964	\$ -	\$ 108,166	\$ 8,900,798
Construction in process:				
Buildings and improvements	2,977,974	1,685,482	698,973	3,964,483
Other	4,673,696	9,991,174	11,474,285	3,190,585
Total capital assets not being depreciated	<u>16,660,634</u>	<u>11,676,656</u>	<u>12,281,424</u>	<u>16,055,866</u>
Capital assets being depreciated:				
Buses	94,972,460	24,737,112	-	119,709,572
Buildings and improvements	92,540,034	220,261	4,751,881	88,008,414
Equipment	25,920,760	102,552	406,639	25,616,673
Ferries and docks	7,259,864	-	-	7,259,864
Other	6,449,188	3,052,318	469,430	9,032,076
Vehicles	9,345,712	114,903	1,235,178	8,225,437
Intangibles	5,299,440	-	487,481	4,811,959
Light rail	256,096,178	268	-	256,096,446
Total capital assets being depreciated	<u>497,883,636</u>	<u>28,227,414</u>	<u>7,350,609</u>	<u>518,760,441</u>
Less accumulated depreciation and amortization for:				
Buses	66,086,113	7,349,386	255	73,435,244
Buildings and improvements	30,990,626	4,493,016	4,500,599	30,983,043
Equipment	21,051,957	1,297,569	305,666	22,043,860
Ferries and docks	5,929,098	242,634	-	6,171,732
Other	4,463,204	959,514	428,015	4,994,703
Vehicles	5,378,237	1,703,654	1,207,975	5,873,916
Intangibles	4,855,730	149,012	487,481	4,517,261
Light rail	51,369,769	13,612,478	-	64,982,247
Total accumulated depreciation and amortization	<u>190,124,734</u>	<u>29,807,263</u>	<u>6,929,991</u>	<u>213,002,006</u>
Total capital assets being depreciated - net	<u>307,758,902</u>	<u>(1,579,849)</u>	<u>420,618</u>	<u>305,758,435</u>
Total capital assets - net	<u>\$324,419,536</u>	<u>\$ 10,096,807</u>	<u>\$ 12,702,042</u>	<u>\$321,814,301</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 7—Unearned reimbursements

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

	<u>2017</u>	<u>2016</u>
City of Chesapeake	\$ 117,925	\$ (124,023)
City of Hampton	(83,701)	(640,923)
City of Newport News	(171,775)	(1,004,627)
City of Norfolk	888,393	(1,973,481)
City of Portsmouth	(117,211)	(38,652)
City of Virginia Beach	351,022	(1,820,859)
	<u>\$ 984,653</u>	<u>\$ (5,602,565)</u>

For 2017 and 2016, the amounts advanced (owed) by participating municipalities are netted in the due from governments in the Statements of Net Position.

Note 8—Notes payable - bank

The Commission has a revolving line of credit of \$17,000,000, which matures January 31, 2019. Advances on the 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 a fluctuating rate per annum equal to sixty-five (65%) of the London Interbank Offered Rate (LIBOR) plus one hundred sixty-five (165) basis points with a floor of 2%. At June 30, 2017 and 2016, the Commission owed \$17,000,000 and \$17,000,000, respectively, against the line of credit.

Note 9—Long-term debt

Following is a summary of debt transactions of the Commission:

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Due Within One Year</u>
Self-insurance	\$ 4,373,999	\$ 1,768,464	\$ 1,444,609	\$ 4,697,854	\$ 4,697,854
Compensated absences	1,463,522	715,056	850,506	1,328,072	1,328,072
Revenue bonds	3,970,000	-	1,940,000	2,030,000	2,030,000
Capital lease	2,451,448	395	369,834	2,082,009	382,312
Net pension liability	10,617,247	7,539,617	5,145,694	13,011,170	-
	<u>\$ 22,876,216</u>	<u>\$ 10,023,532</u>	<u>\$ 9,750,643</u>	<u>\$ 23,149,105</u>	<u>\$ 8,438,238</u>

	<u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>2016</u>	<u>Due Within One Year</u>
Self-insurance	\$ 4,273,422	\$ 1,421,105	\$ 1,320,528	\$ 4,373,999	\$ 4,373,999
Compensated absences	1,189,743	1,003,617	729,838	1,463,522	1,463,522
Debt	5,830,000	-	1,860,000	3,970,000	1,940,000
Capital lease	2,809,212	-	357,369	2,451,843	369,834
Net pension liability	2,886,738	14,129,951	6,399,442	10,617,247	-
	<u>\$ 16,989,115</u>	<u>\$ 16,554,673</u>	<u>\$ 10,667,177</u>	<u>\$ 22,876,611</u>	<u>\$ 8,147,355</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 9—Long-term debt (continued)

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 VRA providing \$4,975,000 of proceeds from the VRA’s issuance of Infrastructure Revenue Bonds, Series 2007A. The debt requires the Commission to pay interest at variable rates ranging from 4.10% to 4.595%. Interest is payable semiannually each April 1st and October 1st. Annual principal payments of varying amounts begin October 1, 2008, through the termination date of October 1, 2017. Proceeds from the debt were used to establish a fund for the acquisition of buses and related equipment during fiscal year 2008.

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

Debt service is as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,030,000	\$ 31,547

Note 10—Lease transactions

Operating Leases – In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2020. For 2017 and 2016, lease expense was \$94,445 and \$92,593, respectively. Future minimum lease payments under this lease are approximately \$95,000, \$97,500, \$100,000 for 2018, 2019, and 2020, respectively.

Capital Leases – In 2015, the Commission entered into a capital lease to purchase seven 40-foot buses to add to its fleet. The buses were capitalized at a cost of \$3,127,291. Depreciation expense on the assets under lease of \$260,575 is included in depreciation expense on the Statements of Revenue, Expenses, and Changes in Net Position and resulted in accumulated depreciation of \$781,725.

Future minimum lease payments under this lease are as follows.

2018	\$ 445,704
2019	445,704
2020	445,704
2021	445,704
2022	445,704
Thereafter	37,142
Total future minimum lease payments	<u>2,265,662</u>
Less amounts representing interest	(183,653)
Total principal due under capital lease obligation	<u>2,082,009</u>
Less current portion	(382,312)
Long-term portion of capital lease obligation	<u><u>\$ 1,699,697</u></u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 11—Subsidies and grants

Subsidies and grants for operating purposes were as follows:

	2017	2016
Federal	\$ 18,646,634	\$ 17,407,928
State	20,849,564	17,491,338
Local	40,728,375	45,001,185
	<u>\$ 80,224,573</u>	<u>\$ 79,900,451</u>

Note 12—Advanced capital contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2017 and 2016, contributions received from local governments exceeded amounts expended by \$5,173,889 and \$3,754,747, respectively.

Note 13—Defined benefit pension plan

Virginia Retirement Plan

Plan Description – All full-time, salaried permanent employees of the Commission are automatically covered by VRS Retirement Plan (Plan) upon employment. This Plan is administered by the Virginia Retirement System (the “System”) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table on the following pages:

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About 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 Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members").</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in Plan 2 If their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but 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.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>
		<p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.</p> <p>Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
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TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under Plan 1.</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Normal Retirement Age VRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable.</p>
<p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Eligibility: Same as Plan 1.</p>	<p>Eligibility: Same as Plan 1 and Plan 2.</p>
<p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
<p><u>Disability Coverage</u> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><u>Disability Coverage</u> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><u>Disability Coverage</u> Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave, or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost / After that one-year period, the rate for most categories of service will change to actuarial cost. <p>Defined Contribution Component: Not applicable.</p>
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Employees Covered by Benefit Terms – As of the June 30, 2016 and 2015, actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	<u>2016</u>	<u>2015</u>
Inactive members or their beneficiaries currently receiving benefits	<u>85</u>	<u>81</u>
Inactive members:		
Vested	35	31
Nonvested	133	130
Active elsewhere in VRS	<u>43</u>	<u>46</u>
Total Inactive Members	<u>211</u>	<u>207</u>
Active members	<u>300</u>	<u>292</u>
Total	<u><u>596</u></u>	<u><u>580</u></u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Contributions – The contributions requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Commission contractually required contribution rate for the year ended June 30, 2017 was 5.99% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were \$980,165 and \$977,271 for the years ended June 30, 2017 and 2016, respectively.

Net Pension Liability – The Commission's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions – The total pension liability for General Employees in the Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Long-Term Expected Rate of Return – The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>8.33%</u>

*Using stochastic projection results provides an expected range of real rates of return over various time horizons.

Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 33,388,752	\$ 33,794,691	\$ (405,939)
Changes for the year:			
Service cost	1,666,613	-	1,666,613
Interest	2,292,254	-	2,292,254
Difference between expected and actual	(273,907)	-	(273,907)
Contributions - employer	-	977,368	(977,368)
Contributions - employee	-	881,024	(881,024)
Net investment income	-	617,701	(617,701)
Benefit payments, including refunds of employee contributions	(1,284,530)	(1,284,530)	-
Administrative expense	-	(20,514)	20,514
Other	-	(256)	256
Net changes	<u>2,400,430</u>	<u>1,170,793</u>	<u>1,229,637</u>
Balances at June 30, 2016	<u>\$ 35,789,182</u>	<u>\$ 34,965,484</u>	<u>\$ 823,698</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 31,044,923	\$ 31,777,102	\$ (732,179)
Changes for the year:			
Service cost	1,645,945	-	1,645,945
Interest	2,132,186	-	2,132,186
Difference between expected and actual	(264,067)	-	(264,067)
Contributions - employer	-	934,294	(934,294)
Contributions - employee	-	789,916	(789,916)
Net investment income	-	1,483,386	(1,483,386)
Benefit payments, including refunds of employee contributions	(1,170,235)	(1,170,235)	-
Administrative expense	-	(19,456)	19,456
Other	-	(316)	316
Net changes	<u>2,343,829</u>	<u>2,017,589</u>	<u>326,240</u>
Balances at June 30, 2015	<u>\$ 33,388,752</u>	<u>\$ 33,794,691</u>	<u>\$ (405,939)</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net position liability (asset) would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
June 30, 2016 Plan's net pension liability (asset)	\$ 5,639,895	\$ 823,698	\$ (3,174,577)
June 30, 2015 Plan's net pension liability (asset)	\$ 4,103,021	\$ (405,939)	\$ (4,146,933)

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2017 and 2016, the Commission recognized pension expense of \$606,447 and \$370,738, respectively. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	\$ 980,165	\$ -
Difference between expected and actual experience	-	342,364
Net difference between projected and actual earnings on plan investments	906,587	-
	<u>\$ 1,886,752</u>	<u>\$ 342,364</u>

At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	\$ 977,271	\$ -
Difference between expected and actual experience	-	199,503
Net difference between projected and actual earnings on plan investments	-	836,832
	<u>\$ 977,271</u>	<u>\$ 1,036,335</u>

\$980,165 reported as deferred outflows of resources related to pensions resulting from the commissions contributions subsequent to the measurement date will be recognized as a reduction of the Net pension liability in fiscal year end June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions as of June 30, 2017 will be recognized in pension expense as follows:

2018	\$ (107,180)
2019	(107,179)
2020	433,104
2021	345,478
	<u>\$ 564,223</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Retirement Plan of the Transportation District Commission of Hampton Roads

Plan Description – Effective January 1, 2012, the Transit Employees of Tidewater Disability and Retirement Allowance Plan and Retirement Plan of Hampton Roads Transportation District Commission merged to become Retirement Plan of the Transportation District Commission of Hampton Roads (“Plan”). The Plan represents Transit Management Company, a wholly-owned subsidiary of the Commission, which covers principally those employees subject to the Commission's union bargaining agreement between the Commission and the Local Union 1177 (“Union”), Norfolk, Virginia, of the Amalgamated Transit Union, dated July 1, 2010. The Plan is a single employer defined benefit plan administered by the Transportation District Commission of Hampton Roads. The Plan provides pensions for all collectively bargained employees of HRT.

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

Employees Covered by Benefit Terms – As of the December 31, 2016 and 2015 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	<u>2016</u>	<u>2015</u>
Inactive members or their beneficiaries currently receiving benefits	289	281
Inactive members entitled to but not yet receiving benefits	65	50
Active members	<u>653</u>	<u>629</u>
Total	<u>1,007</u>	<u>960</u>

Benefits Provided – All collectively bargained employees are eligible to participate in the Plan upon completion of 60 consecutive days of service. Benefits vest after completing ten years of service. Employees who retire after age 65 with 10 years of service, age 61 where the sum of age and years of service is greater than or equal to 85, or any age with at least 25 years of service are entitled to a retirement benefit. The monthly benefit is determined using a formula of 1.6% of Final Average Monthly Compensation (the employees’ highest five year average monthly compensation, plus any accumulated and unused sick leave at retirement) times years of service.

Contributions – The Plan is subject to minimum funding standards set out in the collective bargaining agreement. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees contribute 3% of compensation to fund the plan. The Commission is required to contribute the remainder of the actuarially determined rate, unless that rate falls outside of the predefined corridor of 7.5% to 9.5% of total compensation. For the fiscal year ended June 30, 2017, the actuarially determined rate was 10.50% of annual pay.

Discount Rate – The discount rate used to measure the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that the employer contributions are made at the actuarially determined rates within the corridor specified in the collective bargaining agreement. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the pension liability.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Net Pension Liability – The Commission’s net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of January 1, 2017, using updated actuarial assumptions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the net pension liability calculated using the stated discount rate of 7%, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease	Current Discount	1% Increase
	6.00%	Rate 7.00%	8.00%
December 31, 2016 Plan's net pension liability	\$ 20,292,746	\$ 12,187,471	\$ 5,347,321
December 31, 2015 Plan's net pension liability	\$ 18,486,293	\$ 11,023,186	\$ 4,704,418

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

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

Mortality rates for nondisabled pensioners were based on the RP-2014 Blue Collar Healthy Annuitant Mortality Table for males or females, as appropriate, set forward two years with adjustments for mortality improvement based on Scale MP2016 from 2014. Mortality rates for disabled pensioners were based on RP 2014 Disabled Retiree Mortality Table for males or females, as appropriate, set forward two years with adjustments for mortality improvement based on Scale MP2016 from 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Real Rate of Return
Domestic equity	47.00%	6.71%
International developed markets equity	12.00%	7.71%
Corporate fixed income	27.00%	4.61%
Government fixed income	7.00%	2.11%
Alternative investments	7.00%	3.91%

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Changes in Net Pension Liability

Asset Class	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Long-Term Net Position Liability (a) - (b)
Balances at June 30, 2015	\$ 67,126,672	\$ 56,103,486	\$ 11,023,186
Changes for the year:			
Service cost	1,942,521	-	1,942,521
Interest	4,716,744	-	4,716,744
Difference between expected and actual experience	682,990	-	682,990
Contributions - employer	-	2,184,142	(2,184,142)
Contributions - employee	-	894,542	(894,542)
Changes of assumptions	1,260,323	-	1,260,323
Net investment income	-	4,817,005	(4,817,005)
Benefit payments, including refunds of employee contributions	(3,681,036)	(3,681,036)	-
Administrative expense	-	(128,321)	128,321
Other changes	-	(329,075)	329,075
Net changes	4,921,542	3,757,257	1,164,285
Balances at June 30, 2016	\$ 72,048,214	\$ 59,860,743	\$ 12,187,471

Asset Class	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Long-Term Net Position Liability (a) - (b)
Balances at June 30, 2014	\$ 61,294,113	\$ 57,675,196	\$ 3,618,917
Changes for the year:			
Service cost	1,937,014	-	1,937,014
Interest	4,465,478	-	4,465,478
Difference between expected and actual experience	(104,384)	-	(104,384)
Contributions - employer	-	2,019,707	(2,019,707)
Contributions - employee	-	803,688	(803,688)
Net investment income	-	(674,158)	674,158
Benefit payments, including refunds of employee contributions	(3,574,555)	(3,574,555)	-
Administrative expense	-	(146,392)	146,392
Other changes	3,109,006	-	3,109,006
Net changes	5,832,559	(1,571,710)	7,404,269
Balances at June 30, 2015	\$ 67,126,672	\$ 56,103,486	\$ 11,023,186

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 13—Defined benefit pension plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the years ended June 30, 2017 and 2016, the Commission recognized pension expense of \$3,685,818 and \$2,754,967, respectively. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 549,332	\$ 576,671
Employer contributions made subsequent to measurement date	2,386,292	-
Change in assumptions	2,910,602	-
Net difference between projected and actual earnings on plan investments	1,873,188	-
	<u>\$ 7,719,414</u>	<u>\$ 576,671</u>

At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 844,837
Employer contributions made subsequent to measurement date	2,078,057	-
Change in assumptions	2,502,962	-
Net difference between projected and actual earnings on plan investments	3,435,716	-
	<u>\$ 8,016,735</u>	<u>\$ 844,837</u>

\$2,386,292 reported as deferred outflows of resources related to pensions resulting from the commissions contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2017 will be recognized in pension expense as follows:

2018	\$ 1,356,942
2019	1,356,942
2020	1,729,050
2021	271,686
2022	41,831
	<u>\$ 4,756,451</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 14—Compensated absences

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

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

All nonunion employees may accumulate annual leave up to a maximum of 320 hours to be carried into any one calendar year or to be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2017 and 2016, the Commission has accrued \$1,328,072 and \$1,463,522, respectively, for compensated absences. Compensated absences are included in accrued expenses on the statement of net position.

Note 15—Contingencies

General Liability Self-Insurance – The Commission is self-insured with a retention amount of \$1,000,000 of each occurrence. The Commission purchases excess insurance above the retention.

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

Workers' Compensation Self-Insurance – The Commission is also self-insured for workers' compensation. To minimize the potential for excessive claims, the Commission obtained excess workers' compensation insurance. The Commission is self-insured with a retention amount of \$600,000 of each occurrence. The Commission purchases excess insurance above the retention.

Following is a summary of changes in self-insurance claims payable for the fiscal years ended June 30, 2017 and 2016:

	<u>Beginning Balance</u>	<u>Claims and Reserves</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2017	\$ 4,373,999	\$ 1,768,464	\$ 1,444,609	\$ 4,697,854
2016	4,273,422	1,421,105	1,320,528	4,373,999

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

REQUIRED SUPPLEMENTARY INFORMATION

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ENTERPRISE FUND – TRANSIT ACTIVITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
VIRGINIA RETIREMENT SYSTEM

YEARS ENDED JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:			
Service cost	\$ 1,666,613	\$ 1,645,945	\$ 1,670,516
Interest	2,292,254	2,132,186	1,965,831
Differences between expected and actual experience	(273,907)	(264,067)	-
Benefit payments, including refunds of employee contributions	(1,284,530)	(1,170,235)	(1,349,458)
Net change in total pension liability	2,400,430	2,343,829	2,286,889
Total pension liability, beginning of year	<u>33,388,752</u>	<u>31,044,923</u>	<u>28,758,034</u>
Total pension liability, end of year	<u>35,789,182</u>	<u>33,388,752</u>	<u>31,044,923</u>
Plan fiduciary net position:			
Contributions - employer	977,368	934,294	922,759
Contributions - employee	881,024	789,916	772,006
Net investment income	617,701	1,483,386	4,318,470
Benefit payments, including refunds of employee contributions	(1,284,530)	(1,170,235)	(1,349,458)
Administrative expense	(20,514)	(19,456)	(22,726)
Other	(256)	(316)	227
Net change in plan fiduciary net position	1,170,793	2,017,589	4,641,278
Plan fiduciary net position, beginning of year	<u>33,794,691</u>	<u>31,777,102</u>	<u>27,135,824</u>
Plan fiduciary net position, end of year	<u>34,965,484</u>	<u>33,794,691</u>	<u>31,777,102</u>
Net pension liability (asset), end of year	<u>\$ 823,698</u>	<u>\$ (405,939)</u>	<u>\$ (732,179)</u>
Plan fiduciary net position as a percentage of the total pension liability	98%	101%	102%
Covered-employee payroll	\$ 17,268,241	\$ 16,989,819	\$ 15,945,689
Net pension liability (asset) as a percentage of covered-employee payroll	5%	-2%	-5%

*Schedule is intended to show information for 10 years. Additional years will be included as they are available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ENTERPRISE FUND – TRANSIT ACTIVITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
RETIREMENT PLAN OF TRANSPORTATION DISTRICT COMMISSION

YEARS ENDED JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:			
Service cost	\$ 1,942,521	\$ 1,937,014	\$ 1,992,694
Interest	4,716,744	4,465,478	1,881,747
Differences between expected and actual experience	682,990	(104,384)	1,256,437
Changes in assumptions	1,260,323	3,109,006	-
Benefit payments, including refunds of employee contributions	<u>(3,681,036)</u>	<u>(3,574,555)</u>	<u>(3,488,251)</u>
Net change in total pension liability	4,921,542	5,832,559	1,642,627
Total pension liability, beginning of year	<u>67,126,672</u>	<u>61,294,113</u>	<u>59,651,486</u>
Total pension liability, end of year	<u>72,048,214</u>	<u>67,126,672</u>	<u>61,294,113</u>
Plan fiduciary net position:			
Contributions - employer	2,184,142	2,019,707	1,862,410
Contributions - employee	894,542	803,688	899,747
Net investment income	4,817,005	(674,158)	4,588,910
Benefit payments, including refunds of employee contributions	(3,681,036)	(3,574,555)	(3,488,251)
Administrative expense	(128,321)	(146,392)	(127,927)
Other	<u>(329,075)</u>	<u>-</u>	<u>40,000</u>
Net change in plan fiduciary net position	3,757,257	(1,571,710)	3,774,889
Plan fiduciary net position, beginning of year	<u>56,103,486</u>	<u>57,675,196</u>	<u>53,900,307</u>
Plan fiduciary net position, end of year	<u>59,860,743</u>	<u>56,103,486</u>	<u>57,675,196</u>
Net pension liability, end of year	<u>\$ 12,187,471</u>	<u>\$ 11,023,186</u>	<u>\$ 3,618,917</u>
Plan fiduciary net position as a percentage of the total pension liability	83%	84%	94%
Covered-employee payroll	\$ 28,172,411	\$ 25,916,719	\$ 27,075,414
Net pension liability as a percentage of covered-employee payroll	43%	43%	13%

*Schedule is intended to show information for 10 years. Additional years will be included as they are available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
VIRGINIA RETIREMENT SYSTEM

YEARS ENDED JUNE 30,

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	\$ 956,489	\$ 980,165	\$ (23,676)	\$ 17,268,241	5.68%
2016	\$ 1,017,690	\$ 977,271	\$ 40,419	\$ 16,989,819	5.75%
2015	\$ 1,029,823	\$ 1,029,823	\$ -	\$ 15,945,689	6.46%

*Schedule is intended to show information for 10 years. Additional years will be included as they are available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
RETIREMENT PLAN OF TRANSPORTATION DISTRICT COMMISSION

YEARS ENDED JUNE 30,

Date	Actuarially Required Contribution	Contributions in Relation to Actuarially Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	\$ 2,386,292	\$ 2,386,292	\$ -	\$ 28,172,411	8.47%
2016	\$ 2,078,056	\$ 2,078,056	\$ -	\$ 25,916,719	8.02%
2015	\$ 1,950,314	\$ 1,950,314	\$ -	\$ 27,549,234	7.08%

*Schedule is intended to show information for 10 years. Additional years will be included as they are available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

Virginia Retirement Plan

Changes of Benefit Terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

Retirement Plan of the Transportation District Commission of Hampton Roads

Valuation date	Actuarial determined contribution rates are calculated as of the January 1 st 18 months prior to the beginning of the employer's fiscal year in which contributions are reported.
Actuarial cost method	Entry age normal
Amortization method	Open level dollar for remaining unfunded liability
Amortization period	30 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, 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 7.00% the net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the Plan's target asset allocation.

Inflation rate 3.5%

Project salary increases 7.75% for the first five years after date of hire, 3.75% thereafter

Cost of living adjustments N/A

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

Mortality rates RP-2014 Blue Collar Employee Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for pre-retirement lives.

RP-2014 Blue Collar Healthy Annuitant Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for nondisabled pensioner lives.

RP-2014 Disabled Retiree Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for disabled pensioner lives.

SUPPLEMENTARY INFORMATION

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
ENTERPRISE FUND – TRANSIT ACTIVITY
SCHEDULE OF REVENUE – ACTUAL AND BUDGETED

YEAR ENDED JUNE 30, 2017

	<u>Actual</u>	<u>Budgeted</u>	<u>Actual Over (Under) Budget</u>
Revenue:			
Passenger fares	\$ 15,671,061	\$ 18,750,500	\$ (3,079,439)
Charters and contracts	2,149,290	2,192,300	(43,010)
Auxiliary	1,124,275	1,325,000	(200,725)
Non-transportation	82,600	60,000	22,600
Total Revenue	<u>19,027,226</u>	<u>22,327,800</u>	<u>(3,300,574)</u>
Subsidies and Grants:			
Municipal subsidies	40,728,375	42,770,400	(2,042,025)
State operating subsidies	20,849,564	17,338,500	3,511,064
Federal operating grants	18,646,634	17,043,400	1,603,234
Total Subsidies and Grants	<u>80,224,573</u>	<u>77,152,300</u>	<u>3,072,273</u>
Total Revenue, Subsidies, and Grants	<u>\$ 99,251,799</u>	<u>\$ 99,480,100</u>	<u>\$ (228,301)</u>

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

YEAR ENDED JUNE 30, 2017

	<u>Actual</u>	<u>Budgeted</u>	<u>Actual Over (Under) Budget</u>
Transit Activity Expenses:			
Labor and fringe benefits	\$ 63,517,421	\$ 60,963,700	\$ 2,553,721
Materials and supplies	11,101,816	11,135,000	(33,184)
Insurance, net of ordinary recoveries	4,544,474	4,977,100	(432,626)
Purchase of transportation services	8,321,926	8,451,500	(129,574)
Contractual services	8,252,631	9,807,400	(1,554,769)
Utilities	1,307,840	1,318,800	(10,960)
Other	1,870,559	2,826,600	(956,041)
Total Transit Activity Expenses before Depreciation and Amortization	<u>\$ 98,916,667</u>	<u>\$ 99,480,100</u>	<u>\$ (563,433)</u>

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	\$ 98,916,667
Depreciation and amortization	30,433,974
Self-insurance net increase in net position	(323,855)
	<u>\$ 129,026,786</u>

STATISTICAL SECTION

The following section of Transportation District Commission of Hampton Roads' 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

This table contains trend information to help the reader understand how HRT's financial performance and well-being have changed over time.

Demographic and Operating Information

II - III

These tables contain service and infrastructure data to help the reader understand how the information in HRT's financial report relates to the services it provides and the activities it performs.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
NET POSITION AND CHANGES IN NET POSITION

Table I

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating Revenue:										
Passenger fares	\$ 15,671,061	\$ 16,516,616	\$ 17,058,634	\$ 16,847,734	\$ 15,059,102	\$ 16,563,517	\$ 15,329,690	\$ 14,751,980	\$ 16,953,602	\$ 15,671,379
Charters and contracts	2,149,290	2,148,932	2,790,843	175,422	18	13,742	19,200	76,800	125,905	48,872
Vanpool rentals	-	-	99,010	128,864	177,911	170,138	174,831	177,058	168,817	144,734
Auxiliary	1,124,275	916,238	1,166,888	914,629	1,005,820	731,827	291,817	269,226	276,053	370,495
Non-transportation	82,600	71,677	189,307	197,249	184,424	189,229	338,116	266,398	150,813	128,050
Total Operating Revenue	<u>19,027,226</u>	<u>19,653,463</u>	<u>21,304,682</u>	<u>18,263,898</u>	<u>16,427,275</u>	<u>17,668,453</u>	<u>16,153,654</u>	<u>15,541,462</u>	<u>17,675,190</u>	<u>16,363,530</u>
Operating Expenses:										
Labor	48,420,295	47,684,198	39,565,925	38,365,599	37,029,933	36,459,948	31,358,906	30,574,713	29,165,179	26,477,853
Fringe benefits	15,097,126	14,011,406	18,679,778	17,881,389	15,935,969	15,919,415	14,841,910	14,947,924	13,955,007	13,197,440
Depreciation and amortization	30,433,974	29,807,263	28,913,830	28,280,028	30,582,193	23,535,796	10,561,359	11,956,938	10,607,127	10,153,014
Materials and supplies	11,101,816	14,377,178	15,355,599	14,419,137	14,079,082	14,309,506	12,123,871	11,370,908	14,554,686	11,790,604
Purchase of transportation services	8,321,926	8,236,318	8,364,927	8,664,786	8,320,274	8,084,487	8,229,824	7,317,820	6,700,651	5,981,429
Contractual services	8,252,631	7,176,841	7,212,163	6,328,661	5,765,101	5,665,506	4,997,821	4,485,524	3,806,872	3,377,753
Insurance - net of ordinary recoveries	4,220,619	4,227,990	4,860,863	3,469,574	4,308,865	7,196,743	3,274,247	3,765,591	3,490,501	2,989,774
Utilities	1,307,840	1,209,725	1,242,038	1,402,569	1,361,074	1,312,737	736,784	678,685	790,534	720,958
Other	1,870,559	1,773,808	2,315,819	1,001,624	1,285,981	1,083,639	960,543	669,995	1,504,933	1,574,515
Total Operating Expenses	<u>129,026,786</u>	<u>128,504,727</u>	<u>126,510,942</u>	<u>119,813,367</u>	<u>118,668,472</u>	<u>113,567,777</u>	<u>87,085,265</u>	<u>85,768,098</u>	<u>84,575,490</u>	<u>76,263,340</u>
Operating loss before subsidies and grants	(109,999,560)	(108,851,264)	(105,206,260)	(101,549,469)	(102,241,197)	(95,899,324)	(70,931,611)	(70,226,636)	(66,900,300)	(59,899,810)
Subsidies and grants	80,224,573	79,900,451	80,140,500	74,907,981	71,304,102	71,066,933	60,555,809	58,020,430	57,263,369	50,394,765
Operating loss before other expenses, net	<u>(29,774,987)</u>	<u>(28,950,813)</u>	<u>(25,065,760)</u>	<u>(26,641,488)</u>	<u>(30,937,095)</u>	<u>(24,832,391)</u>	<u>(10,375,802)</u>	<u>(12,206,206)</u>	<u>(9,636,931)</u>	<u>(9,505,045)</u>
Other Income (Expenses):										
Interest income	17,940	12,536	2,840	2,079	4,760	3,109	11,460	13,535	83,469	406,255
Interest expense	(471,920)	(516,644)	(538,750)	(539,967)	(631,645)	(702,559)	(725,536)	(911,415)	(877,316)	(846,964)
Pension benefit (expense)	(819,625)	(96,529)	1,180,335	-	-	-	-	-	-	-
Gain (loss) on sale of capital assets	(303,634)	1,497,602	(56,954)	(8,313)	25,093	84,969	165,079	78,881	(205,541)	83,910
Contributions to other governments	(2,292,858)	-	-	-	-	-	-	-	-	-
Noncapitalized grant expenditures	(7,011,742)	(15,976,572)	(7,747,825)	(10,201,366)	(7,802,976)	(11,313,086)	(11,680,362)	(7,210,393)	(7,966,713)	(9,576,307)
Total Other Expenses, net	<u>(10,881,839)</u>	<u>(15,079,607)</u>	<u>(7,160,354)</u>	<u>(10,747,567)</u>	<u>(8,404,768)</u>	<u>(11,927,567)</u>	<u>(12,229,359)</u>	<u>(8,029,392)</u>	<u>(8,966,101)</u>	<u>(9,933,106)</u>
Loss before proceeds from capital grants	(40,656,826)	(44,030,420)	(32,226,114)	(37,389,055)	(39,341,863)	(36,759,958)	(22,605,161)	(20,235,598)	(18,603,032)	(19,438,151)
Proceeds from capital grants	15,272,596	45,398,865	19,936,757	17,805,078	15,764,870	44,962,979	111,771,158	115,595,814	122,492,587	55,013,712
Change in net position	<u>(25,384,230)</u>	<u>1,368,445</u>	<u>(12,289,357)</u>	<u>(19,583,977)</u>	<u>(23,576,993)</u>	<u>8,203,021</u>	<u>89,165,997</u>	<u>95,360,216</u>	<u>103,889,555</u>	<u>35,575,561</u>
Prior period adjustment	-	-	-	(4,588,220)	-	-	-	-	-	-
Net position, beginning of year	313,516,798	312,148,353	324,437,710	348,609,907	372,186,900	363,983,879	274,817,882	179,457,666	75,568,111	39,992,550
Net position, end of year	<u>\$ 288,132,568</u>	<u>\$ 313,516,798</u>	<u>\$ 312,148,353</u>	<u>\$ 324,437,710</u>	<u>\$ 348,609,907</u>	<u>\$ 372,186,900</u>	<u>\$ 363,983,879</u>	<u>\$ 274,817,882</u>	<u>\$ 179,457,666</u>	<u>\$ 75,568,111</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
DEMOGRAPHIC AND OPERATING STATISTICS¹

Table II

LAST TEN FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Cities served ¹	6	6	6	6	6	6	7	7	7	7
Square miles ¹	428	431	421	421	515	515	515	369	369	369
Number of employees: ²										
Non-Bargaining Unit FT	281	286	284	263	270	261	235	211	197	180
Non-Bargaining Unit PT	80	85	90	85	76	81	36	27	33	42
Bargaining Unit FT	638	629	597	575	573	613	605	562	574	567
Bargaining Unit PT	24	55	59	79	103	99	134	72	72	152
	1,023	1,055	1,030	1,002	1,022	1,054	1,010	872	876	941
Maintenance facilities ¹	6	6	6	6	6	6	6	5	5	5
Gallons of diesel fuel ¹	2,448,638	2,473,874	2,530,231	2,616,249	2,535,071	2,698,447	2,811,773	2,874,687	3,098,729	2,961,967
Gallons of gasoline ¹	582,744	569,396	579,115	557,185	587,615	453,533	545,282	528,579	503,575	137,096
Kilowatt hours of propulsion ^{1,3}	3,520,125	3,678,500	3,432,625	4,368,975	3,387,625	2,950,078	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
OPERATING INDICATORS¹

Table III

LAST TEN FISCAL YEARS

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

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
OPERATING INDICATORS¹ (CONTINUED)

Table III

LAST TEN FISCAL YEARS

Fiscal Year	Vehicle Operated in Maximum Service	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Passenger Trips	Passenger Miles Traveled
2014:					
Bus	233	9,975,085	740,586	15,024,190	75,683,206
Light Rail	6	372,032	29,810	1,587,929	6,296,325
Vanpool	47	828,572	21,149	159,642	5,343,342
Demand Response	86	2,821,403	184,814	311,789	2,487,677
Ferryboat	3	15,208	6,375	332,378	236,720
Total	375	14,012,300	982,734	17,415,928	90,047,270
2015:					
Bus	236	10,218,494	796,645	14,218,168	65,849,308
Light Rail	6	376,456	29,966	1,551,553	5,716,308
Vanpool	33	609,793	14,835	97,859	3,594,392
Demand Response	90	3,370,172	213,638	324,510	2,696,590
Ferryboat	3	18,955	6,597	294,625	209,583
Total	368	14,593,870	1,061,681	16,486,715	78,066,181
2016:					
Bus	236	10,657,297	823,606	13,241,512	64,203,470
Light Rail	6	393,524	29,955	1,369,483	5,178,799
Vanpool	26	445,988	10,850	74,109	2,819,351
Demand Response	98	3,788,225	237,016	351,654	2,948,453
Ferryboat	3	19,163	6,658	247,013	181,833
Total	369	15,304,197	1,108,085	15,283,771	75,331,906
2017:*					
Bus	227	10,624,169	827,021	12,586,719	69,866,663
Light Rail	6	392,768	29,868	1,405,330	5,005,506
Vanpool	30	501,855	13,384	98,621	3,270,145
Demand Response	103	3,804,596	239,679	365,610	3,115,549
Ferryboat	3	18,972	6,612	295,983	213,395
Total	369	15,342,360	1,116,564	14,752,263	81,471,258

1 Source: National Transit Database

* Preliminary Data

N/A Not available

COMPLIANCE SECTION

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

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Transportation District Commission of Hampton Roads (“Commission”), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cheryl Bekant LLP

Virginia Beach, Virginia
February 6, 2018

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

Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Transportation District Commission of Hampton Roads' ("Commission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2017. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

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

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

Cherry Bekaert LLP

Virginia Beach, Virginia
February 6, 2018

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

YEAR ENDED JUNE 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Number	Grant Program	Year	Federal Catalog Number	Total Expenditures
Department of Transportation				
Direct Payments				
Federal Transit Administration Capital Improvements Grants:				
VA 04-0050	Southside Facility Project - Admin. Bldg.	2011	20.500	\$ 96,921
VA 04-0058	FY12 SGR-Paratransit Vans and TAM	2014	20.500	168,839
VA 04-0060	Passenger Shelters-Livability Grant	2014	20.500	145,688
VA-05-0049	FY12 5309 Fixed Guideway	2015	20.500	82,119
				<u>493,567</u>
Federal Transit Administration Formula Grants:				
VA-90-X369	5307 Capital Grant	2011	20.507	123,520
VA-90-X381	FY12 Partial Apportionment-PM	2012	20.507	28,662
VA-90-X395	FY13 5307 Full Apportionment Amendment	2013	20.507	151,450
VA-90-X410	FY14 5307 Partial	2014	20.507	137,682
VA-90-X430	FY15 5307 Partial	2015	20.507	148,878
VA-90-X520	FY15 & 16 Partial 5307 and CMAQ grant-PM and TRAFFIX	2016	20.507	99,176
VA-90-X533	5337,5307,5339,STP and CMAQ Grant	2017	20.507	10,839,608
VA-95-X063	Hampton Facility, VBTES, NSNTE	2014	20.507	2,473,515
VA-95-X118	Bus Refurbishment and EMS Project	2014	20.507	89,659
VA-95-X119	Bus Purchase and TRAFFIX-RSTP/CMA	2015	20.507	196,447
VA-95-X141	VBTES RSTP	2015	20.507	3,858,331
VA-95-X167	FY15 & 16 Partial 5307 and CMAQ grant-PM and TRAFFIX	2016	20.507	270,774
VA-95-X178	5337, 5307, 5339, STP and CMAQ Grant	2017	20.507	1,352,939
Pending	FY17 5307	2017	20.507	6,219,317
VA-96-X003	\$0 Amendment - Add Operating	2014	20.507	1,373
				<u>25,991,331</u>
Passed through from Department of Rail and Public Transportation				
72514-04	Regional TDM program Traffix	2015	20.507	48,688
Total Department of Rail and Public Transportation				<u>48,688</u>
Bus Facilities Formula Program:				
VA-34-0004	FY13 and 14 Section 5339 for Vehic	2015	20.526	369,477
VA-34-0011	FY15 & 16 Partial 5307 and CMAQ grant-PM and TRAFFIX	2016	20.526	484,549
				<u>854,026</u>
Subtotal - Federal Transit Cluster				<u>27,387,612</u>

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

Federal Granting Agency/Recipient State Agency/Grant Number	Grant Program	Year	Federal Catalog Number	Total Expenditures
Federal Transit Administration Job Access and Reverse Commute Program: VA-37-X014	JARC Grant (Sub recipients portion of award \$89,359)	2011	20.516	70,540
VA-37-X022	JARC Projects - Cycle 6 and 8 (Sub recipients portion of award \$81,994)	2014	20.516	47,909
				<u>118,449</u>
Federal Transit Administration New Freedom Program: VA-57-X001	New Freedom Grant (Sub recipients portion of award \$102,770)	2011	20.521	48,942
VA-57-X004	Cycle 7 and 8 New Freedom Projects (Sub recipients portion of award \$209,959)	2014	20.521	108,116
				<u>157,058</u>
Subtotal - Transit Services Program Cluster				<u>275,507</u>
Federal Transit Administration New Freedom Program VA-70-X001	Ferryboat FHWA Flex	2015	20.205	450,240
Subtotal Department of Highway Planning and Construction Cluster				<u>450,240</u>
Total Department of Transportation				<u>\$ 28,113,359</u>

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

YEAR ENDED JUNE 30, 2017

Note 1—General

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

Note 2—Basis of accounting

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

Note 3—Indirect cost rate

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

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

YEAR ENDED JUNE 30, 2017

A. Summary of Auditor's Results

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

CFDA Number

20.500-CL

Name of Federal Program or Cluster

Federal Transit Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **\$843,400**
11. Transportation District Commission of Hampton Roads qualified as a low-risk auditee under Uniform Grant Guidance: **Yes**

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

None reported.

C. Findings and Questioned Costs Relating to Federal Awards:

None reported.

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

None reported.

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

YEAR ENDED JUNE 30, 2017

Comment Description and Number	Corrected Yes/No	In Process of Correcting	Valid Yes/No	Amount of Questioned Cost	Description of Action Taken by Commission
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There were no prior year audit findings.



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

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

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

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