

*Consolidated Financial Statements*  
*Years Ended*  
*June 30, 2010 and 2009*



*Transportation District*  
*Commission of Hampton Roads*



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## *Transportation District Commission of Hampton Roads*

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W. Randy Wright, Vice Chairman

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Corey W. Hill  
James W. Holley, III  
Curtis R. Milteer, Sr.  
Senator Ralph S. Northam  
Delegate G. Glen Oder

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John E. Uhrin  
Paige V. Washington, Jr.  
Richard W. "Rick" West  
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David C. Sullivan.....*Senior Vice President for Finance, Administration and Technology*  
Homer Carter, Jr. ....*Senior Vice President for Bus and Rail Operations*  
Jayne B. Whitney .....*Senior Vice President for Development*  
Raymond Amoruso.....*Senior Vice President for Planning and Public Affairs*  
Karen C. Burnette.....*Vice President for Administration*  
Vincent Jackson.....*Vice President for Planning*  
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Hien B. Hoang.....*Director of Accounting*  
Keisha L. Branch.....*Chief Grants Officer*  
Brandon K. Singleton .....*Chief Budget Officer*  
Wright C. Parkes .....*Director of Procurement*  
Paul A. Croston .....*Revenue Services Manager*

# ***Transportation District Commission of Hampton Roads***

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## *Report of Independent Auditors*

Commissioners  
***Transportation District Commission of Hampton Roads***

We have audited the accompanying consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These consolidated financial statements are the responsibility of the ***Transportation District Commission of Hampton Roads's*** management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the ***Transportation District Commission of Hampton Roads*** as of June 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the ***Transportation District Commission of Hampton Roads'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* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audit of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Goodman & Company LLP*

Newport News, Virginia  
December 23, 2010

## *Management's Discussion and Analysis*

The following Management Discussion and Analysis (MD&A) of the Transportation District Commission of Hampton Roads' (Commission) activities and financial performance provides the reader with an introduction and overview to the consolidated basic financial statements for the year ended June 30, 2010. Following this MD&A are the consolidated basic financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the consolidated basic financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's consolidated basic financial statements, which follow this narrative.

### **Financial Operations Highlights**

Below are highlights of the Commission's activities for fiscal year 2010.

- The increase in net assets for 2010 was \$95.4 million. The majority of this increase is due to an increase in the acquisition of capital assets by capital grant funding, primarily due to the light rail project.
- Operating revenues of \$15.5 million were 12% or approximately \$2.1 million less than fiscal year 2009, primarily due to decreased passenger revenue (from discontinued resident service for the Hampton City Schools as of June 30, 2009).
- Operating expenses of \$73.8 million (net of depreciation and amortization) were approximately the same as fiscal year 2009 due to cost controls in place.
- Subsidies and grants of \$58.0 million were 1.3% or approximately \$750 thousand greater than fiscal year 2009.
- At the end of the fiscal year, unrestricted net assets were \$40,836, a decrease of \$2,232,951 and Commission designated funds for self insurance increased by \$473,744 to an unfavorable balance of \$705,515.

### **Summary of Operations and Changes in Net Assets**

	<b>Year Ended June 30, 2010</b>	<b>Year Ended June 30, 2009</b>	<b>Year Ended June 30, 2008</b>
Operating revenues	\$ 15,541,462	\$ 17,675,190	\$ 16,363,530
Operating expenses	85,768,098	84,575,490	76,263,340
Operating loss before subsidies and grants	(70,226,636)	(66,900,300)	(59,899,810)
Subsidies and grants	58,020,430	57,263,369	50,394,765
Operating loss before other income (expenses)	(12,206,206)	(9,636,931)	(9,505,045)
Other income (expenses)	(8,029,392)	(8,966,101)	(9,933,106)
Loss before proceeds from capital grants	(20,235,598)	(18,603,032)	(19,438,151)
Proceeds from capital grants	115,595,814	122,492,587	55,013,712
Change in net assets	<b>\$ 95,360,216</b>	<b>\$ 103,889,555</b>	<b>\$ 35,575,561</b>

## Financial Position Summary

Net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by \$274.8 million at June 30, 2010.

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

	June 30, 2010	June 30, 2009	June 30, 2008
<b>Assets</b>			
Current assets	\$ 40,765,754	\$ 46,341,167	\$ 28,698,416
Capital assets - net	287,561,205	191,777,953	91,860,817
Other assets	1,916,357	2,012,508	109,104
<b>Total assets</b>	<b>330,243,316</b>	<b>240,131,628</b>	<b>120,668,337</b>
<b>Liabilities</b>			
Current liabilities	42,920,434	46,678,962	29,675,226
Long-term liabilities	12,505,000	13,995,000	15,425,000
<b>Total liabilities</b>	<b>55,425,434</b>	<b>60,673,962</b>	<b>45,100,226</b>
<b>Net Assets</b>			
Invested in capital assets	275,482,561	178,363,138	75,055,817
Unrestricted	40,836	2,273,787	1,949,808
Commission designated for self-insurance	(705,515)	(1,179,259)	(1,437,514)
<b>Total net assets</b>	<b>\$ 274,817,882</b>	<b>\$ 179,457,666</b>	<b>\$ 75,568,111</b>

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

## Revenues

A summary of revenues is as follows:

	2010 Amount	Percent of Total	2009 Amount	Percent of Total	2008 Amount	Percent of Total
<b>Operating</b>						
Passenger fares	\$ 14,751,980	94.4%	\$ 16,953,602	95.6%	\$ 15,671,379	93.1%
Charters and contracts	76,800	0.5%	125,905	0.7%	48,872	0.2%
Vanpool rentals	177,058	1.1%	168,817	0.9%	144,734	0.8%
Auxiliary	269,226	1.7%	276,053	1.5%	370,495	2.2%
Nontransportation	266,398	1.7%	150,813	0.8%	128,050	0.8%
<b>Total operating</b>	<b>15,541,462</b>	<b>99.4%</b>	<b>17,675,190</b>	<b>99.5%</b>	<b>16,363,530</b>	<b>97.1%</b>
<b>Nonoperating</b>						
Gain on sale of capital assets	78,881	0.5%	-	-	83,910	0.5%
Interest income	13,535	0.1%	83,469	0.5%	406,255	2.4%
<b>Total nonoperating</b>	<b>92,416</b>	<b>0.6%</b>	<b>83,469</b>	<b>0.5%</b>	<b>490,165</b>	<b>2.9%</b>
<b>Total revenues</b>	<b>\$ 15,633,878</b>	<b>100.0%</b>	<b>\$ 17,758,659</b>	<b>100.0%</b>	<b>\$ 16,853,695</b>	<b>100.0%</b>

## Expenses

A summary of expenses is as follows:

	2010 Amount	Percent of Total	2009 Amount	Percent of Total	2008 Amount	Percent of Total
<b>Operating</b>						
Labor	\$ 30,574,713	32.6%	\$ 29,165,179	31.3%	\$ 26,477,853	30.5%
Fringe benefits	14,947,924	16.0%	13,955,007	14.9%	13,197,440	15.2%
Depreciation and amortization	11,956,938	12.7%	10,607,127	11.3%	10,153,014	11.7%
Materials and supplies	11,370,908	12.1%	14,554,686	15.5%	11,790,604	13.6%
Insurance - net of ordinary recoveries	3,765,591	4.0%	3,490,501	3.7%	2,989,774	3.5%
Purchase of transportation services	7,317,820	7.7%	6,700,651	7.2%	5,981,429	6.9%
Contractual services	4,485,524	4.8%	3,806,872	4.1%	3,377,753	3.9%
Utilities	678,685	0.7%	790,534	0.8%	720,958	0.9%
Other	669,995	0.7%	1,504,933	1.6%	1,574,515	1.8%
<b>Total operating</b>	<b>85,768,098</b>	<b>91.3%</b>	<b>84,575,490</b>	<b>90.4%</b>	<b>76,263,340</b>	<b>88.0%</b>
<b>Nonoperating</b>						
Loss on sale of capital assets	-	-	205,541	0.2%	-	-
Interest expense	911,415	1.0%	877,316	0.9%	846,964	1.0%
Noncapitalized grant expenditures	7,210,393	7.7%	7,966,713	8.5%	9,576,307	11.0%
<b>Total nonoperating</b>	<b>8,121,808</b>	<b>8.7%</b>	<b>9,049,570</b>	<b>9.6%</b>	<b>10,423,271</b>	<b>12.0%</b>
<b>Total expenses</b>	<b>\$ 93,889,906</b>	<b>100.0%</b>	<b>\$ 93,625,060</b>	<b>100.0%</b>	<b>\$ 86,686,611</b>	<b>100.00%</b>

## Summary of Cash Flow Activities

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

	Year Ended June 30, 2010	Year Ended June 30, 2009	Year Ended June 30, 2008
Cash flows from operating activities	\$ (58,259,604)	\$ (51,107,536)	\$ (43,016,167)
Cash flows from noncapital financing activities	59,953,167	68,651,905	56,347,469
Cash flows from capital and related financing activities	(5,864,796)	(17,097,644)	(18,289,229)
Cash flows from investing activities	15,857	86,404	6,448,053
Net change in cash and cash equivalents	(4,155,376)	533,129	1,490,126
Cash and cash equivalents - beginning of period	7,286,284	6,753,155	5,263,029
Cash and cash equivalents - end of period	\$ 3,130,908	\$ 7,286,284	\$ 6,753,155

The Commission's available cash and cash equivalents decreased from \$7.3 million at the end of 2009 to \$3.1 million at the end of 2010.

## **Capital Acquisitions and Construction Activities**

During the year ended June 30, 2010, the Commission expended \$109.8 million on capital activities from grant funds. This amount included \$89.5 million for the light rail transportation project, \$1.3 million for buses, \$15.1 million for new southside facility and \$3.9 million on other capital items.

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

## **Debt**

At June 30, 2010, the Commission owed \$19,550,000 against its \$20,000,000 revolving line of credit, primarily due to the timing of government receivables.

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

At June 30, 2010, the Commission owed \$13,995,000 on these bonds, with \$1,490,000 of principal payments due in fiscal year 2011.

## **Consolidated Basic Financial Statements**

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

## **Request for Information**

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

*Transportation District Commission of Hampton Roads*

*Consolidated Statements of Net Assets*

June 30,	2010	2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,130,908	\$ 7,286,284
Due from governments	34,781,421	36,222,336
Accounts receivable	426,472	287,349
Inventories	2,152,250	2,267,833
Prepaid expenses	274,703	277,365
<b>Total current assets</b>	<b>40,765,754</b>	<b>46,341,167</b>
<b>Capital assets - net of accumulated depreciation</b>	<b>287,561,205</b>	<b>191,777,953</b>
<b>Intangible assets - net</b>	<b>1,916,356</b>	<b>2,010,185</b>
<b>Restricted investments</b>	<b>1</b>	<b>2,323</b>
	<b>\$ 330,243,316</b>	<b>\$ 240,131,628</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Note payable - bank	\$ 19,550,000	\$ 17,200,000
Current portion of long-term debt	1,490,000	1,430,000
Accounts payable	12,022,075	18,630,221
Accrued expenses	3,033,527	3,204,902
Self-insurance liability	2,812,583	3,116,145
Unearned reimbursements	588,408	919,051
Advanced capital contributions	3,423,841	2,178,643
<b>Total current liabilities</b>	<b>42,920,434</b>	<b>46,678,962</b>
<b>Long-term debt</b>	<b>12,505,000</b>	<b>13,995,000</b>
<b>Total liabilities</b>	<b>55,425,434</b>	<b>60,673,962</b>
<b>Net assets</b>		
Investment in capital assets	275,482,561	178,363,138
Unrestricted	40,836	2,273,787
Commission designated for self-insurance liability	(705,515)	(1,179,259)
<b>Total net assets</b>	<b>274,817,882</b>	<b>179,457,666</b>
	<b>\$ 330,243,316</b>	<b>\$ 240,131,628</b>

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

*Transportation District Commission of Hampton Roads*

*Consolidated Statements of Revenues, Expenses and Changes in Net Assets*

Years Ended June 30,	2010	2009
<b>Operating revenues</b>		
Passenger fares	\$ 14,751,980	\$ 16,953,602
Charters and contracts	76,800	125,905
Vanpool rentals	177,058	168,817
Auxiliary	269,226	276,053
Nontransportation	266,398	150,813
	<u>15,541,462</u>	<u>17,675,190</u>
<b>Operating expenses</b>		
Labor	30,574,713	29,165,179
Fringe benefits	14,947,924	13,955,007
Depreciation and amortization	11,956,938	10,607,127
Materials and supplies	11,370,908	14,554,686
Purchase of transportation services	7,317,820	6,700,651
Contractual services	4,485,524	3,806,872
Insurance - net of ordinary recoveries	3,765,591	3,490,501
Other	669,995	1,504,933
Utilities	678,685	790,534
	<u>85,768,098</u>	<u>84,575,490</u>
<b>Operating loss before subsidies and grants</b>	(70,226,636)	(66,900,300)
<b>Subsidies and grants</b>	58,020,430	57,263,369
<b>Operating loss before other income (expenses)</b>	<u>(12,206,206)</u>	<u>(9,636,931)</u>
<b>Other income (expenses)</b>		
Interest income	13,535	83,469
Interest expense	(911,415)	(877,316)
Gain (loss) on sale of capital assets	78,881	(205,541)
Noncapitalized grant expenditures	(7,210,393)	(7,966,713)
	<u>(8,029,392)</u>	<u>(8,966,101)</u>
<b>Loss before proceeds from capital grants</b>	(20,235,598)	(18,603,032)
<b>Proceeds from capital grants</b>	115,595,814	122,492,587
<b>Changes in net assets</b>	95,360,216	103,889,555
<b>Net assets - beginning of year</b>	<u>179,457,666</u>	<u>75,568,111</u>
<b>Net assets - end of year</b>	<u>\$ 274,817,882</u>	<u>\$ 179,457,666</u>

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

*Transportation District Commission of Hampton Roads*

*Consolidated Statements of Cash Flows*

<b>Years Ended June 30,</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 15,402,339	\$ 17,783,632
Payments to suppliers for goods and services	(27,967,931)	(26,302,034)
Payments to employees	(45,694,012)	(42,589,134)
<b>Net cash from operating activities</b>	<u>(58,259,604)</u>	<u>(51,107,536)</u>
<b>Cash flows from noncapital financing activities</b>		
Operating subsidies and grants received	57,603,167	57,451,905
Increase in note payable - bank	2,350,000	11,200,000
<b>Net cash from noncapital financing activities</b>	<u>59,953,167</u>	<u>68,651,905</u>
<b>Cash flows from capital and related financing activities</b>		
Increase in advanced capital contributions	1,245,198	420,345
Interest expense	(911,415)	(877,316)
Acquisition of capital assets and intangible assets	(114,385,696)	(110,729,804)
Noncapitalized grant expenditures	(7,210,393)	(7,966,713)
Proceeds from disposition of capital assets	78,881	-
Proceeds from capital grants	117,123,346	105,342,183
Increase in intangible assets	(374,717)	(1,906,339)
Payments on long-term debt	(1,430,000)	(1,380,000)
<b>Net cash from capital and related financing activities</b>	<u>(5,864,796)</u>	<u>(17,097,644)</u>
<b>Cash flows from investing activities</b>		
Interest income	13,535	83,469
Decrease in restricted investments	2,322	2,935
<b>Net cash from investing activities</b>	<u>15,857</u>	<u>86,404</u>
<b>Net change in cash and cash equivalents</b>	(4,155,376)	533,129
<b>Cash and cash equivalents - beginning of year</b>	<u>7,286,284</u>	<u>6,753,155</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 3,130,908</u>	<u>\$ 7,286,284</u>

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

*Transportation District Commission of Hampton Roads*

*Consolidated Statements of Cash Flows*

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<b>Years Ended June 30,</b>	<b>2010</b>	<b>2009</b>
<b>Reconciliation of operating loss before subsidies and grants to net cash from operating activities</b>		
Operating loss before subsidies and grants	\$ (70,226,636)	\$ (66,900,300)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	11,956,938	10,607,127
Change in:		
Accounts receivable	(139,123)	108,442
Inventories	115,583	83,853
Prepaid expenses	2,662	(151,513)
Accounts payable	505,909	4,448,508
Accrued expenses	(171,375)	531,052
Self-insurance liability	(303,562)	165,295
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>\$ (58,259,604)</b>	<b>\$ (51,107,536)</b>

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

# *Transportation District Commission of Hampton Roads*

## *Notes to Consolidated Financial Statements*

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June 30, 2010 and 2009

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### **1. Organization and Nature of Business**

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

### **2. Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

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

#### **Accounts Receivable**

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

#### **Inventories**

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

#### **Capital Assets**

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

Maintenance and ordinary repairs are charged to expense as incurred.

## **Other Assets**

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

## **Revenues**

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

## **Cash and Cash Equivalents**

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

## **Budgets and Budgetary Accounting**

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

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

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

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

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

## **Estimates**

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

## **Advertising Costs**

Advertising costs are charged to operations when incurred. For 2010 and 2009, \$369,627 and \$953,522, respectively, of advertising costs were charged to operations.

## **Subsequent Events**

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through December 23, 2010, the date the financial statements were available to be issued.

### **3. Cash and Cash Equivalents and Investments**

#### **Deposits**

At June 30, 2010 and 2009, the carrying value of the Commission's deposits with banks was \$1,009,324 and \$6,170,044, respectively, and the bank balances were \$1,695,771 and \$10,057,247, 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, 2010 and 2009, the Commission had \$1,744,314 and \$739,801, respectively, invested in money market funds. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

#### **Investments**

##### *Investment Policy*

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

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

### *Credit Risk*

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

As of June 30, 2010 and 2009, 100% of the Commission's cash equivalents were invested in money market funds and the State Treasurers Local Government Investment Pool.

### *Concentration of Credit Risk*

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

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

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

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

### *Interest Rate Risk*

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

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

Investment Type	Fair Value	Weighted Average Maturity*
<b><u>2010</u></b>		
Money market funds - Virginia LGIP	\$ 377,270	-
Other money market funds	1,744,314	-
<b>Total cash equivalents</b>	<u>2,121,584</u>	-
Total bank deposits	1,009,324	-
<b>Total cash and cash equivalents</b>	<u>\$ 3,130,908</u>	
<b><u>2009</u></b>		
Money market funds - Virginia LGIP	\$ 376,139	-
Other money market funds	739,801	-
<b>Total cash equivalents</b>	<u>1,115,940</u>	-
Total bank deposits	6,170,344	-
<b>Total cash and cash equivalents</b>	<u>\$ 7,286,284</u>	

\* *Weighted average maturity in years.*

*Custodial Credit Risk*

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

**4. Due From Governments**

Government receivables consisted of the following:

	<b>2010</b>	<b>2009</b>
Federal Transit Administration	\$ 26,218,454	\$ 16,986,853
Commonwealth of Virginia	3,714,369	6,277,832
City of Norfolk	4,761,981	12,957,651
City of Virginia Beach	86,617	-
	<u>\$ 34,781,421</u>	<u>\$ 36,222,336</u>

**5. Inventories**

Inventories consisted of the following:

	<b>2010</b>	<b>2009</b>
Bus and service vehicle parts	\$ 1,992,027	\$ 1,994,987
Fuel and oil	160,223	272,846
	<u>\$ 2,152,250</u>	<u>\$ 2,267,833</u>

## 6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 12,753,147	\$ -	\$ (5,003,625)	\$ 7,749,522
Construction in process:				
Light rail cars	15,428,505	-	-	15,428,505
Light rail infrastructure	94,675,328	89,555,125	-	184,230,453
Tools/equipment	-	1,272,767	-	1,272,767
Southside facility	5,676,340	15,050,716	-	20,727,056
	<u>128,533,320</u>	<u>105,878,608</u>	<u>(5,003,625)</u>	<u>229,408,303</u>
Capital assets being depreciated				
Buses	107,881,301	1,251,214	(12,404,085)	96,728,430
Buildings and improvements	31,926,730	443,746	(9,045,786)	23,324,690
Para transit & service vans	8,329,899	32,750	(13,013)	8,349,636
Pedestrian ferries and docks	6,553,672	161,822	-	6,715,494
Fare collection equipment	9,706,534	620,689	(2,119)	10,325,104
Shop and garage equipment	4,593,620	198,623	(969,834)	3,822,409
Radio and communications equipment	8,732,792	188,927	(16,900)	8,904,819
Management information system	3,949,561	864,679	-	4,814,240
Furniture and office equipment	2,013,146	-	(198,422)	1,814,724
Bus shelters and signs	2,550,189	48,381	(6,650)	2,591,920
Service vehicles	579,420	198,766	(26,008)	752,178
Supervisory vehicles	552,569	116,005	(11,892)	656,682
	<u>187,369,433</u>	<u>4,125,602</u>	<u>(22,694,709)</u>	<u>168,800,326</u>
Less - accumulated depreciation	<u>(124,124,800)</u>	<u>(11,504,475)</u>	<u>24,981,851</u>	<u>(110,647,424)</u>
	<u>63,244,633</u>	<u>(7,378,873)</u>	<u>2,287,142</u>	<u>58,152,902</u>
	<u>\$ 191,777,953</u>	<u>\$ 98,499,735</u>	<u>\$ (2,716,483)</u>	<u>\$ 287,561,205</u>

## 7. Unearned Reimbursements - Net

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

	2010	2009
City of Chesapeake	\$ (211,859)	\$ (106,386)
City of Hampton	357,188	370,917
City of Newport News	366,742	216,492
City of Norfolk	(469,126)	(53,296)
City of Portsmouth	723,005	773,905
City of Suffolk	53,212	5,901
City of Virginia Beach	(230,754)	(288,482)
	<u>\$ 588,408</u>	<u>\$ 919,051</u>

**8. Note Payable - Bank**

The Commission has a revolving line of credit of \$20,000,000, which matures January 31, 2011. Advances on the line of credit were collateralized by the pledging of all revenues, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 68% and quarterly at 68% at June 30, 2010 and 2009, respectively, of the London Interbank Offered Rate (LIBOR) plus 166 basis points, (2.05% and 2.11% at June 30, 2010 and 2009, respectively). At June 30, 2010 and 2009, the Commission owed \$19,550,000 and \$17,200,000, respectively, against the line of credit.

**9. Long-Term Debt**

Following is a summary of debt transactions of the Commission:

	<u>2010</u>	<u>2009</u>
Balance - July 1	\$ 15,425,000	\$ 16,805,000
Increases	-	-
Decreases	(1,430,000)	(1,380,000)
Balance - June 30	<u>\$ 13,995,000</u>	<u>\$ 15,425,000</u>
Amount due within one year	<u>\$ 1,490,000</u>	<u>\$ 1,430,000</u>

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

On June 1, 2007, the Commission entered into a second financing arrangement with the Virginia Resources Authority (VRA), whereby VRA provided \$4,975,000 of proceeds from the VRA's issuance of Infrastructure Revenue Bonds, Series 2007A. The debt requires the Commission to pay interest at variable rates ranging from 4.10% to 4.595%. Interest is payable semiannually each April 1<sup>st</sup> and October 1<sup>st</sup>. 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>
2011	\$ 1,490,000	\$ 581,570
2012	1,560,000	514,730
2013	1,630,000	441,105
2014	1,705,000	361,966
2015	1,780,000	284,176
2016-2017	5,830,000	359,964
	<u>\$ 13,995,000</u>	<u>\$ 2,543,511</u>

**10. Operating Lease**

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2010 and 2009, lease expense was \$448,334 and \$70,000, respectively.

Future minimum lease payments under these leases are as follows:

2011	\$ 420,833
2012	70,833
2013	70,833
2014	87,550
2015	60,118
	<u>\$ 710,167</u>

**11. Subsidies and Grants**

Subsidies and grants for operating purposes were as follows:

	<u>2010</u>	<u>2009</u>
Federal	\$ 22,794,923	\$ 22,074,219
State	11,963,044	12,290,454
Local	23,262,463	22,898,696
	<u>\$ 58,020,430</u>	<u>\$ 57,263,369</u>

**12. Advanced Capital Contributions**

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2010 and 2009, contributions received from local governments exceeded amounts expended by \$3,423,841 and \$2,178,643, respectively, and are shown in the accompanying consolidated statements of net assets as advanced capital contributions.

### 13. Defined Benefit Pension Plans

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

#### A. Virginia Retirement System

##### a) Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employees, payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living (COLA) adjustment beginning in their second year of retirement. AFS is defined as the average of a participant's highest consecutive 36 months of salary. Participating law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be obtained from their website at <http://www.varetire.org> or by writing to VRS at P.O. Box 2500, Richmond, VA 23218-2500.

##### b) Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the Commission. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Commission's contribution rate for the years ended June 30, 2010 and 2009, was 4.07% and 1.71%, respectively.

**c) Annual Required Contribution (ARC)**

For the years ended June 30, 2010 and 2009, the Commission's actual contribution of \$456,217 and \$161,122, respectively, was equal to the Commission's required ARC. The required contribution was determined as part of the June 30, 2007, actuarial valuation. The actuarial assumptions included (a) a rate of return on investments of 8%, (b) projected salary increases ranging from 3.25% to 5.73%, and (c) cost-of-living adjustments of 2.5%. Both (a) and (b) included an inflation component of 2.5%.

**d) Schedule of Employer Contributions**

Period	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
Year ended June 30, 2010	\$ 456,217	100%	\$ -0-
Year ended June 30, 2009	\$ 161,122	100%	\$ -0-
Year ended June 30, 2008	\$ 167,313	100%	\$ -0-

**e) Schedule of Funding Progress**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
June 30, 2009	\$ 20,620,227	\$ 20,043,831	\$ 576,396	102.98%	\$ 10,319,879	5.59%
June 30, 2008	\$ 18,676,084	\$ 14,774,174	\$ 3,901,911	126.4%	\$ 7,666,831	50.9%
June 30, 2007	\$ 16,993,316	\$ 13,426,395	\$ 3,566,921	126.6%	\$ 6,452,631	55.3%

**f) Notes to Schedules of Employer Contributions and Funding Progress - VRS**

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

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3.00%
Remaining amortization period	20 Years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	
Non-LEO Members	3.75% to 5.60%
LEO Members	3.50% to 4.75%
Cost-of-living adjustments	2.50%

## B. Transit Employees of Tidewater Disability and Retirement Allowance Plan

### a) Plan Description

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

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

### b) Funding Policy

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

### c) Annual Required Contributions (ARC)

For the years ended June 30, 2010 and 2009, the Commission's actual contribution was \$1,383,629 and \$1,267,157, respectively. The required contribution was determined as part of the December 31, 2009, actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 7.25%, and (b) projected salary increases of 5%.

### d) Schedule of Employer Contributions

<u>Year End</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Cost Contributed</u>	<u>Net Pension Obligation (Benefit)</u>
December 31, 2009	\$ 1,446,122	96%	\$ 62,493
December 31, 2008	\$ 1,042,819	122%	\$ (224,338)
December 31, 2007	\$ 848,497	123%	\$ (200,660)

**e) Schedule of Funding Progress**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
December 31, 2009	\$ 24,323,006	\$ 32,645,619	\$ (8,322,613)	74.51%	\$ 13,836,290	(60.15%)
December 31, 2008	\$ 21,111,994	\$ 30,740,682	\$ (9,628,688)	68.68%	\$ 13,267,177	(72.58%)
December 31, 2007	\$ 25,019,440	\$ 30,172,362	\$ (5,152,922)	82.92%	\$ 13,703,277	(37.64%)

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

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

Valuation date	January 1, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	1-29 Years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%

**C. Retirement Plan of Hampton Roads Transportation District Commission**

**a) Plan Description**

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

**b) Funding Policy**

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

**c) Annual Required Contributions (ARC)**

For the years ended June 30, 2010 and 2009, the Commission's actual contributions to the plan were \$459,495 and \$436,922, respectively. The annual required contribution for the current year was determined as part of the July 1, 2009, actuarial valuation using the entry age normal cost method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and projected salary increases of 5% per year.

**d) Schedule of Employer Contributions**

Fiscal Year End	Annual Required Contribution (ARC)	Percentage of ARC Cost Contributed	Net Pension Obligation (Benefit)
June 30, 2010	\$ 584,275	79%	\$ 124,780
June 30, 2009	\$ 433,915	101%	\$ (3,007)
June 30, 2008	\$ 380,720	124%	\$ (89,080)

**e) Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Over (Under) Funded AAL	Funded Ratio	Annual Covered Payroll	Over (Under) Funded AAL as a Percentage of Covered Payroll
June 30, 2009	\$ 15,825,238	\$ 15,523,412	\$ 301,826	102%	\$ 7,658,250	4%
June 30, 2008	\$ 16,042,183	\$ 14,585,817	\$ 1,456,366	110%	\$ 7,773,590	19%
June 30, 2007	\$ 15,364,868	\$ 13,257,411	\$ 2,107,457	116%	\$ 7,063,229	30%

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

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

Valuation date	July 1, 2009
Actuarial cost method	Entry Age Normal
Amortization Period	10 years remaining as of July 1, 1009
Asset valuation method	The actuarial value is market value of assets less unrecognized returns in each of the last four years or, if fewer, the completed years since July 1, 2001. Unrecognized return is equal to the difference between the actual market return and the expected return (at the actuarially assumed rate) on the market value, and is recognized ratably over a four-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return	7%
Projected salary increases	5%

**D. Peninsula Transportation District Commission Defined Contribution Retirement Plan**

Prior to the merger, the Peninsula Transportation District Commission established a defined contribution retirement plan covering salaried employees. In accordance with the plan, employees are required to contribute 2% of compensation, with an option to contribute up to a maximum of an additional 3% of compensation. The Commission is required to contribute 4% of salaried employee compensation, plus a dollar-for-dollar match of optional employee contributions. The Commission's contribution to the retirement escrow fund and the salaried retirement plan for the year ended June 30, 2009, was \$50,915. In April 2009, this plan was terminated and all assets were transferred to Virginia Retirement System. After this termination, the employees covered by this plan will be covered by Virginia Retirement System.

**14. Compensated Absences**

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

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

All nonunion employees may accumulate annual leave up to a maximum of 320 hours to be carried into any one calendar year or to be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2010 and 2009, the Commission has accrued \$762,876 and \$668,580, respectively, for compensated absences.

**15. Contingencies**

**Self-Insurance**

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

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

## **Workers' Compensation Insurance**

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

## **Federally Assisted Grant Programs**

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

### **16. Light Rail Project**

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

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

At June 30, 2010, the Commission had expended approximately \$236 million for this project.

\* \* \* \* \*

*Transportation District Commission of Hampton Roads*

*Supplementary Information*

*Year Ended June 30, 2010*

*Transportation District Commission of Hampton Roads*

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

**Year Ended June 30, 2010**

	Actual	Budgeted	Actual Over (Under) Budget
<b>Revenues</b>			
Passenger fares	\$ 14,751,980	\$ 15,093,282	\$ (341,302)
Charters and contracts	76,800	-	76,800
Vanpool rentals	177,058	-	177,058
Auxiliary	269,226	200,275	68,951
Nontransportation	266,398	405,929	(139,531)
<b>Total revenues</b>	<b>15,541,462</b>	<b>15,699,486</b>	<b>(158,024)</b>
<b>Subsidies and grants</b>			
Municipal subsidies	23,262,463	23,427,385	(164,922)
State operating subsidies	11,963,044	11,888,069	74,975
Federal operating grants	22,794,923	25,170,127	(2,375,204)
<b>Total subsidies and grants</b>	<b>58,020,430</b>	<b>60,485,581</b>	<b>(2,465,151)</b>
<b>Total revenues, subsidies and grants</b>	<b>\$ 73,561,892</b>	<b>\$ 76,185,067</b>	<b>\$ (2,623,175)</b>

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

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

Operating revenues	\$ 15,541,462
Subsidies and grants	58,020,430
	<u>\$ 73,561,892</u>

*Transportation District Commission of Hampton Roads*

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

**Year Ended June 30, 2010**

	Actual	Budgeted	Actual Over (Under) Budget
<b>Transit activity expenses</b>			
Labor and fringe benefits	\$ 45,522,637	\$ 45,584,191	\$ (61,554)
Materials and supplies	11,370,908	12,444,868	(1,073,960)
Insurance - net of ordinary recoveries	4,239,335	4,257,032	(17,697)
Purchase of transportation services	7,317,820	7,068,264	249,556
Contractual services	4,485,524	4,417,506	68,018
Utilities	678,685	799,507	(120,822)
Other	669,995	1,613,699	(943,704)
<b>Total transit activity expenses before depreciation and amortization</b>	<b>\$ 74,284,904</b>	<b>\$ 76,185,067</b>	<b>\$ (1,900,163)</b>

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

Total transit activity expenses before depreciation	\$ 74,284,904
Depreciation and amortization	11,956,938
Self insurance net increase in net assets	(473,744)
	<u>\$ 85,768,098</u>

*Transportation District Commission of Hampton Roads*

*Compliance Section*

*Year Ended June 30, 2010*



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

Commissioners  
***Transportation District Commission of Hampton Roads***

We have audited the consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** and Subsidiary (Commission) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as Finding 2010-1. 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.

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*Compliance and Other Matters*

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

We noted certain matters that we have reported to Budget and Finance Committee of the Commission in a separate letter dated December 23, 2010.

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

*Goodman & Company F.T.P.*

Newport News, Virginia  
December 23, 2010



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

Commissioners  
***Transportation District Commission of Hampton Roads***

***Compliance***

We have audited the compliance of the ***Transportation District Commission of Hampton Roads*** and Subsidiary, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) ***Circular A-133 Compliance Supplement*** that are applicable to each of its major federal programs for the year ended June 30, 2010. The ***Transportation District Commission of Hampton Roads'*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***Transportation District Commission of Hampton Roads'*** management. Our responsibility is to express an opinion on the ***Transportation District Commission of Hampton Roads'*** compliance based on our audit.

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

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

### *Internal Control Over Compliance*

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

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

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

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

*Goodman & Company T.T.P.*

Newport News, Virginia  
December 23, 2010

**Transportation District Commission of Hampton Roads  
Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2010

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number	Year	Federal Catalogue Number	Total Expenditures
<b>Department of Transportation</b>			
<b>Direct Payments</b>			
Federal Transit Administration Capital Improvements Grants:			
VA 03-0061	1997	20-500	\$ 23,106
VA 03-0082	2002	20-500	2,878,592
VA 03-0107	2007	20-500	\$2,098,478
VA 03-0110	2006	20-500	(242,884)
VA 04-0035	2008	20-500	40,709
VA 05-0039	2007	20-500	65,578
VA 05-0040	2009	20-500	82,164
VA 37-X014	2007	20-516	390,464
VA 39-0002	2010	20-500	52
VA 57-X001	2007	20-500	320,181
VA 66-0002	2010	20-500	1,000,000
VA 90-X189	2000	20-500	(23,487)
VA 90-X214	2002	20-500	280,096
VA 90-X228	2003	20-500	12,910
VA 90-X239	2004	20-500	32,457
VA 90-X259	2005	20-500	15,531
VA 90-X262	2006	20-500	1,251,894
VA 90-X282	2006	20-500	877,561
VA 90-X294	2007	20-500	31,340
VA 90-X295	2007	20-500	6,165
VA 90-X304	2007	20-500	143,859
VA 90-X320	2008	20-500	4,940,344
VA 90-X344	2009	20-500	854,471
VA 90-X359	2010	20-500	15,346,276
VA 95-X001	2007	20-500	3,512,001
VA 95-X014	2009	20-500	1,471,859
VA 95-X016	2008	20-500	9,731
VA 95-X063	2009	20-500	1,221,228
VA 95-X064	2010	20-500	60,873
VA 96-X003	2009	20-500	13,322,061
Total all capital improvement grants			100,023,610
Environmental Protection Agency			
Virginia Clean Cities			
Department of Homeland Security			
2007-RL-T7-0017	2,010	66-039	14,068
2007-RL-T7-0100			
Transit Security Grant	2007	97-075	523,112
Transit Security Supplemental Grant	2007	97-075	84,015
Urban Area Security Initiative Grant	2008	97-008	7,567
			614,694
Passed through from Department of Rail and Public Transportation			
47008-07 Regional TDM program Traffic	2008	20-507	556,188
47010-04 Regional TDM program Traffic	2010	20-507	147,953
Passed through from Southeastern Virginia Planning District Commission			
Federal Transit Administration Technical Studies Grant and Section 8 Grant	2010	20-507	243,740
<b>Total Department of Transportation</b>			
			\$ 101,600,253

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

See accompanying notes to schedule of expenditures of federal awards.

*Transportation District Commission of Hampton Roads*

*Notes to Schedule of Expenditures of Federal Awards*

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**June 30, 2010**

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**1. General**

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

**2. Basis of Accounting**

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

*Transportation District Commission of Hampton Roads*

*Schedule of Findings and Questioned Costs*

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June 30, 2010

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**1. Summary of Auditors' Results**

- a. An unqualified opinion was issued on the consolidated financial statements.
- b. One reportable condition was noted for internal control over financial reporting. This condition is considered a significant deficiency as reported below.
- c. The audit did not disclose any noncompliance material to the consolidated financial statements.
- d. There were no significant deficiencies noted in internal control over major federal programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit disclosed one audit finding as reported below.
- g. Major programs are:
  - i. Capital Improvement Grants (20.500)
  - ii. Capital and Operating Assistance Formula and Technical Studies Grants (20.507)
- h. The dollar threshold used to distinguish between Type A and Type B programs is \$3,048,008.
- i. The Commission qualified as a low-risk auditee.

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

**Finding 2010-1**

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

**Criteria:** Internal controls should be in place to ensure monthly reconciliations of all cash, including operating cash, on a monthly basis.

**Effect:** As a result of these reconciliations not being prepared on a monthly basis, receivables could be overstated and cash balances could be understated.

**Recommendation:** We recommend that procedures be established to ensure that these reconciliations are prepared in a timely manner.

**Commission Response:** Staff is strengthening procedures to ensure that all necessary reconciliations are completed on a monthly basis.

**3. Findings and Questioned Costs for Federal Awards**

None

**4. Status of Prior Year Findings**

There were no findings for the prior year.