

Consolidated Financial Statements
Years Ended
June 30, 2012 and 2011



Transportation District
Commission of Hampton Roads



Transportation District Commission of Hampton Roads

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Ronald E. Edwards *Chief Safety and Security Officer*
Sibyl Pappas *Chief Environmental and Facilities Officer*
James E. Price, Jr. *Chief Transit Operations Officer*
David Taylor *Internal Auditor*

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Hien B. Hoang *Grants Accounting Officer*
Sylvia L. Shanahan *Senior Financial Manager*
Brandon K. Singleton *Director of Budget and Financial Analysis*
Deborah C. Purcell *Director of Procurement*
Paul A. Croston *Director of Revenue Services*

Transportation District Commission of Hampton Roads

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DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

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, 2012 and 2011, as listed in the table of contents. These consolidated financial statements are the responsibility of the *Transportation District Commission of Hampton Roads*' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 audit 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, 2012 and 2011, 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 14, 2012, on our consideration of the *Transportation District Commission of Hampton Roads*' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Our audit was conducted for the purpose of forming an opinion on the 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.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2012

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, 2012. 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 2012.

- The increase in net assets for 2012 was \$8.2 million. The majority of this increase is due to an increase in the acquisition of capital assets by capital grant funding.
- Operating revenues of \$17.6 million were 9% or approximately \$1.5 million more than fiscal year 2011, primarily due to increased advertising revenue and addition of light rail services.
- Operating expenses of \$90 million (net of depreciation and amortization) increased by 17.6% or \$13.5 million due to increased costs related to light rail services.
- Subsidies and grants of \$71 million were 17.3% or approximately \$10.5 million greater than fiscal year 2011.
- At the end of the fiscal year, unrestricted net assets were \$358,355, an increase of \$35,757 and Commission designated funds for self-insurance decreased by \$250,455 to a balance of \$946,161.

Summary of Operations and Changes in Net Assets

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Operating revenues	\$ 17,668,453	\$ 16,153,654	\$ 15,541,462
Operating expenses	113,567,777	87,085,265	85,768,098
Operating loss before subsidies and grants	(95,899,324)	(70,931,611)	(70,226,636)
Subsidies and grants	71,066,933	60,555,809	58,020,430
Operating loss before other income (expenses)	(24,832,391)	(10,375,802)	(12,206,206)
Other income (expenses)	(11,927,567)	(12,229,359)	(8,029,392)
Loss before proceeds from capital grants	(36,759,958)	(22,605,161)	(20,235,598)
Proceeds from capital grants	44,962,979	111,771,158	115,595,814
Change in net assets	\$ 8,203,021	\$ 89,165,997	\$ 95,360,216

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 \$372.1 million at June 30, 2012.

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

	June 30, 2012	June 30, 2011	June 30, 2010
Assets			
Current assets	\$ 28,095,524	\$ 27,717,811	\$ 40,765,754
Capital assets - net	380,803,227	373,380,997	287,561,205
Other assets	1,024,158	1,588,669	1,916,357
Total assets	409,922,909	402,687,477	330,243,316
Liabilities			
Current liabilities	28,421,009	27,758,598	42,920,434
Long-term liabilities	9,315,000	10,945,000	12,505,000
Total liabilities	37,736,009	38,703,598	55,425,434
Net Assets			
Invested in capital assets	370,882,384	362,464,665	275,482,561
Unrestricted	358,355	322,598	40,836
Commission designated for self-insurance	946,161	1,196,616	(705,515)
Total net assets	\$ 372,186,900	\$ 363,983,879	\$ 274,817,882

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:

	2012 Amount	Percent of Total	2011 Amount	Percent of Total	2010 Amount	Percent of Total
Operating						
Passenger fares	\$ 16,563,517	93.3%	\$ 15,329,690	93.9%	\$ 14,751,980	94.4%
Charters and contracts	13,742	0.1%	19,200	0.1%	76,800	0.5%
Vanpool rentals	170,138	1.0%	174,831	1.0%	177,058	1.1%
Auxiliary	731,827	4.1%	291,817	1.8%	269,226	1.7%
Nontransportation	189,229	1.0%	338,116	2.0%	266,398	1.7%
Total operating	17,668,453	99.5%	16,153,654	98.8%	15,541,462	99.4%
Nonoperating						
Gain on sale of capital assets	84,969	0.4%	165,079	1.1%	78,881	0.5%
Interest income	3,109	0.1%	11,460	0.1%	13,535	0.1%
Total nonoperating	88,078	0.5%	176,539	1.2%	92,416	0.6%
Total revenues	\$ 17,756,531	100.0%	\$ 16,330,193	100.0%	\$ 15,633,878	100.0%

Expenses

A summary of expenses is as follows:

	2012 Amount	Percent of Total	2011 Amount	Percent of Total	2010 Amount	Percent of Total
Operating						
Labor	\$ 36,459,948	29.0%	\$ 31,358,906	31.5%	\$ 30,574,713	32.6%
Fringe benefits	15,919,415	12.7%	14,841,910	14.9%	14,947,924	16.0%
Depreciation and amortization	23,535,796	18.7%	10,561,359	10.6%	11,956,938	12.7%
Materials and supplies	14,309,506	11.4%	12,123,871	12.2%	11,370,908	12.1%
Insurance - net of ordinary recoveries	7,196,743	5.7%	3,274,247	3.3%	3,765,591	4.0%
Purchase of transportation services	8,084,487	6.4%	8,229,824	8.3%	7,317,820	7.7%
Contractual services	5,665,506	4.5%	4,997,821	5.0%	4,485,524	4.8%
Utilities	1,312,737	1.0%	736,784	0.7%	678,685	0.7%
Other	1,083,639	1.0%	960,543	1.0%	669,995	0.7%
Total operating	113,567,777	90.4%	87,085,265	87.5%	85,768,098	91.3%
Nonoperating						
Interest expense	702,559	0.6%	725,536	0.7%	911,415	0.9%
Noncapitalized grant expenditures	11,313,086	9.0%	11,680,362	11.8%	7,210,393	7.7%
Total nonoperating	12,015,645	9.6%	12,405,898	12.5%	8,121,808	8.6%
Total expenses	\$ 125,583,422	90.4%	\$ 99,491,163	87.5%	\$ 93,889,906	91.30%

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, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash flows from operating activities	\$ (73,881,614)	\$ (62,733,081)	\$ (58,259,604)
Cash flows from noncapital financing activities	71,066,933	50,408,145	59,953,167
Cash flows from capital and related financing activities	1,996,284	12,418,234	(5,864,796)
Cash flows from investing activities	3,109	11,460	15,857
Net change in cash and cash equivalents	(815,288)	104,758	(4,155,376)
Cash and cash equivalents - beginning of period	3,235,666	3,130,908	7,286,284
Cash and cash equivalents - end of period	\$ 2,420,378	\$ 3,235,666	\$ 3,130,908

The Commission's available cash and cash equivalents decreased from \$3.2 million at the end of 2011 to \$2.4 million at the end of 2012.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2012, the Commission expended \$32.1 million on capital activities from grant funds. This amount included \$11.3 million for the light rail transportation project, \$3.4 million for buses, \$12.4 million for new the southside facility and \$5 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, 2012, the Commission owed \$9,500,000 against its \$20,000,000 revolving line of credit, primarily due to the timing of government receivables.

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

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

At June 30, 2012, the Commission owed \$10,945,000 on these bonds, with \$1,630,000 of principal payments due in fiscal year 2013.

Consolidated Basic Financial Statements

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

Request for Information

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Net Assets

June 30,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 2,420,378	\$ 3,235,666
Due from governments	20,291,451	20,613,147
Accounts receivable	754,205	508,955
Inventories	2,536,354	2,084,577
Prepaid expenses	2,093,136	1,275,466
Total current assets	28,095,524	27,717,811
Capital assets - net of accumulated depreciation	380,803,227	373,380,997
Intangible assets - net	1,024,158	1,588,669
	\$ 409,922,909	\$ 402,687,477
Liabilities and Net Assets		
Current liabilities		
Notes payable - bank	\$ 9,500,000	\$ 9,500,000
Current portion of long-term debt	1,630,000	1,560,000
Accounts payable	5,628,666	8,208,483
Accrued expenses	3,262,330	2,474,203
Self-insurance liability	4,225,087	2,436,786
Due to City of Norfolk	1,950,446	-
Unearned reimbursements	-	490,744
Advanced capital contributions	2,224,480	3,088,382
Total current liabilities	28,421,009	27,758,598
Long-term debt	9,315,000	10,945,000
Total liabilities	37,736,009	38,703,598
Net assets		
Investment in capital assets	370,882,384	362,464,665
Unrestricted	358,355	322,598
Commission designated for self-insurance liability	946,161	1,196,616
Total net assets	372,186,900	363,983,879
	\$ 409,922,909	\$ 402,687,477

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,	2012	2011
Operating revenues		
Passenger fares	\$ 16,563,517	\$ 15,329,690
Charters and contracts	13,742	19,200
Vanpool rentals	170,138	174,831
Auxiliary	731,827	291,817
Nontransportation	189,229	338,116
	<u>17,668,453</u>	<u>16,153,654</u>
Operating expenses		
Labor	36,459,948	31,358,906
Fringe benefits	15,919,415	14,841,910
Depreciation and amortization	23,535,796	10,561,359
Materials and supplies	14,309,506	12,123,871
Purchase of transportation services	8,084,487	8,229,824
Contractual services	5,665,506	4,997,821
Insurance - net of ordinary recoveries	7,196,743	3,274,247
Utilities	1,312,737	736,784
Other	1,083,639	960,543
	<u>113,567,777</u>	<u>87,085,265</u>
Operating loss before subsidies and grants	<u>(95,899,324)</u>	<u>(70,931,611)</u>
Subsidies and grants	<u>71,066,933</u>	<u>60,555,809</u>
Operating loss before other income (expenses)	<u>(24,832,391)</u>	<u>(10,375,802)</u>
Other income (expenses)		
Interest income	3,109	11,460
Interest expense	(702,559)	(725,536)
Gain on sale of capital assets	84,969	165,079
Noncapitalized grant expenditures	(11,313,086)	(11,680,362)
	<u>(11,927,567)</u>	<u>(12,229,359)</u>
Loss before proceeds from capital grants	<u>(36,759,958)</u>	<u>(22,605,161)</u>
Proceeds from capital grants	<u>44,962,979</u>	<u>111,771,158</u>
Changes in net assets	<u>8,203,021</u>	<u>89,165,997</u>
Net assets - beginning of year	<u>363,983,879</u>	<u>274,817,882</u>
Net assets - end of year	<u>\$ 372,186,900</u>	<u>\$ 363,983,879</u>

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Years Ended June 30,	2012	2011
Cash flows from operating activities		
Receipts from customers and users	\$ 17,423,203	\$ 16,071,171
Payments to suppliers for goods and services	(39,713,581)	(32,044,012)
Payments to employees	(51,591,236)	(46,760,240)
Net cash from operating activities	(73,881,614)	(62,733,081)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	71,066,933	60,458,145
Decrease in note payable - bank	-	(10,050,000)
Net cash from noncapital financing activities	71,066,933	50,408,145
Cash flows from capital and related financing activities		
Decrease in advanced capital contributions	(863,902)	(335,459)
Interest expense	(702,559)	(725,536)
Acquisition of capital assets and intangible assets	(31,752,178)	(99,270,144)
Noncapitalized grant expenditures	(11,313,086)	(11,680,362)
Proceeds from disposition of capital assets	84,969	165,079
Proceeds from capital grants	48,103,040	125,879,432
Increase in intangible assets	-	(124,776)
Payments on long-term debt	(1,560,000)	(1,490,000)
Net cash from capital and related financing activities	1,996,284	12,418,234
Cash flows from investing activities		
Interest income	3,109	11,460
Net cash from investing activities	3,109	11,460
Net change in cash and cash equivalents	(815,288)	104,758
Cash and cash equivalents - beginning of year	3,235,666	3,130,908
Cash and cash equivalents - end of year	\$ 2,420,378	\$ 3,235,666

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Years Ended June 30,	2012	2011
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	\$ (95,899,324)	\$ (70,931,611)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	23,535,796	10,561,359
Change in:		
Accounts receivable	(245,250)	(82,483)
Inventories	(451,777)	67,673
Prepaid expenses	(817,670)	(1,000,763)
Accounts payable	(2,579,817)	(412,035)
Accrued expenses	788,127	(559,424)
Self-insurance liability	1,788,301	(375,797)
Net cash from operating activities	\$ (73,881,614)	\$ (62,733,081)

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

Transportation District Commission of Hampton Roads

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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 2012 and 2011, \$362,386 and \$482,090, respectively, of advertising costs were charged to operations.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through December 14, 2012, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2012 and 2011, the carrying value of the Commission's deposits with banks was \$(138,297) and \$1,110,100, respectively, and the bank balances were \$3,515,536 and \$4,156,470, 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, 2012 and 2011, the Commission had \$2,180,052 and \$1,747,513, respectively, invested in money market funds. These cash equivalents are not insured by FDIC or the Act and are, therefore, subject to investment risk.

Investments

Investment Policy

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

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

Credit Risk

As required by state 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, 2012 and 2011, 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*
<u>2012</u>		
Money market funds - Virginia LGIP	\$ 378,623	-
Other money market funds	2,180,052	-
Total cash equivalents	2,558,675	-
Total bank deposits	(138,297)	-
Total cash and cash equivalents	\$ 2,420,378	
<u>2011</u>		
Money market funds - Virginia LGIP	\$ 378,053	-
Other money market funds	1,747,513	-
Total cash equivalents	2,125,566	-
Total bank deposits	1,110,100	-
Total cash and cash equivalents	\$ 3,235,666	

* *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:

	2012	2011
Federal Transit Administration	\$ 12,633,091	\$ 12,625,342
Commonwealth of Virginia	2,258,772	4,159,325
Local governments	5,399,588	3,828,480
	\$ 20,291,451	\$ 20,613,147

5. Inventories

Inventories consisted of the following:

	2012	2011
Bus and service vehicle parts	\$ 2,180,961	\$ 1,865,827
Light rail parts	122,635	-
Fuel and oil	232,758	218,750
	\$ 2,536,354	\$ 2,084,577

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 9,020,378	\$ -	\$ -	\$ 9,020,378
Construction in process:				
Light rail cars	15,428,505	-	(15,428,505)	-
Light rail infrastructure	229,250,327	-	(229,250,327)	-
Tools/equipment	1,593,145	-	(1,593,145)	-
	<u>255,292,355</u>	<u>-</u>	<u>(246,271,977)</u>	<u>9,020,378</u>
Capital assets being depreciated				
Buses	93,662,171	3,461,637	(8,503,047)	88,620,761
Buildings and improvements	80,492,494	13,808,213	(15)	94,300,692
Para transit & service vans	6,282,278	229,586	(1,556,767)	4,955,098
Pedestrian ferries and docks	6,503,310	26,231	-	6,529,541
Fare collection equipment	10,580,884	543,699	(277,820)	10,846,763
Shop and garage equipment	4,279,586	486,458	(37,341)	4,728,703
Radio and communications equipment	9,397,019	142,706	(30,381)	9,509,344
Management information system	5,179,590	1,164,630	-	6,344,220
Furniture and office equipment	1,802,681	212,936	(37,702)	1,977,915
Bus shelters and signs	2,583,370	542,297	(821,400)	2,304,267
Service vehicles	1,630,315	103,792	(86,651)	1,647,456
Supervisory vehicles	600,629	56,586	(19,250)	637,965
Light Rail	-	255,895,528	-	255,895,528
	<u>222,994,327</u>	<u>276,674,299</u>	<u>(11,370,374)</u>	<u>488,298,252</u>
Less - accumulated depreciation	<u>(104,905,685)</u>	<u>(22,980,092)</u>	<u>11,370,374</u>	<u>(116,515,403)</u>
	<u>118,088,642</u>	<u>253,694,207</u>	<u>-</u>	<u>371,782,849</u>
	<u>\$ 373,380,997</u>	<u>\$ 253,694,207</u>	<u>\$ (246,271,977)</u>	<u>\$ 380,803,227</u>

7. Due to City of Norfolk

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

8. Unearned Reimbursements - Net

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

	2012	2011
City of Chesapeake	\$ (119,577)	\$ (136,061)
City of Hampton	(153,642)	(47,540)
City of Newport News	(395,625)	(34,465)
City of Norfolk	(119,227)	26,951
City of Portsmouth	(163,288)	904,962
City of Suffolk	68,516	125,934
City of Virginia Beach	(188,549)	(349,037)
	<u>\$ (1,071,392)</u>	<u>\$ 490,744</u>

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

9. Notes Payable - Bank

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

10. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	2012	2011
Balance - July 1	\$ 12,505,000	\$ 13,995,000
Increases	-	-
Decreases	(1,560,000)	(1,490,000)
Balance - June 30	<u>\$ 10,945,000</u>	<u>\$ 12,505,000</u>
Amount due within one year	<u>\$ 1,630,000</u>	<u>\$ 1,560,000</u>

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

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

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

Debt service is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,630,000	\$ 441,105
2014	1,705,000	361,966
2015	1,780,000	284,176
2016	1,860,000	205,642
2017	3,970,000	154,321
	<u>\$ 10,945,000</u>	<u>\$ 1,447,210</u>

11. Operating Lease

In 2008, the Commission entered into agreements to lease warehouse and storage facilities expiring in various years through February 2015. For 2012 and 2011, lease expense was \$86,152 and \$436,152, respectively.

Future minimum lease payments under these leases are as follows:

2013	\$ 85,000
2014	87,550
2015	60,118
	<u>\$ 232,668</u>

12. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	<u>2012</u>	<u>2011</u>
Federal	\$ 28,695,082	\$ 24,269,900
State	14,112,461	10,979,865
Local	28,259,390	25,306,044
	<u>\$ 71,066,933</u>	<u>\$ 60,555,809</u>

13. Advanced Capital Contributions

Advanced capital contributions result from local government contributions received in excess of the local government share on capital grants. At June 30, 2012 and 2011, contributions received from local governments exceeded amounts expended by \$2,224,480 and \$3,088,382, respectively, and are shown in the accompanying consolidated statements of net assets as advanced capital contributions.

14. Defined Benefit Pension Plans

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

A. Virginia Retirement System

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

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

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

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

a) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. For June 30, 2012 and 2011, the Commission has assumed the required employee portion. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Commission's contribution rate for the years ended June 30, 2012 and 2011, was 5.99%.

b) Annual Pension Cost

For the years ended June 30, 2012 and 2011, the Commissions annual pension cost of \$876,687 and \$716,508, respectively was equal to the Commission's required and actual contributions.

Three-Year Trend Information for County/City/Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$876,687	100%	\$ -0-
June 30, 2011	\$716,508	100%	\$ -0-
June 30, 2010	\$456,217	100%	\$ -0-

The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2010, included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% for plan 1 members and 2.25% for plan 2 members per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

c) Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 89.95% funded. The actuarial accrued liability for benefits was \$25,365,107, and the actuarial value of assets was \$22,816,887, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,548,220. The covered payroll (annual payroll of active employees covered by the plan) was \$12,829,439, and ratio of the UAAL to the covered payroll was 19.86%.

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

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

a) Plan Description

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

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

b) Funding Policy

The contribution requirements of employees and the Commission are established and may be amended by the terms of the collective bargaining agreement between the Commission and the Union. That agreement provides that employees are required to contribute 3% of compensation received during any month, with a minimum contribution of \$10, while the employer contributes an additional sum equal to at 7.5% and no more than 9.5% of compensation paid to the participant during the month, with a minimum contribution of \$40.

c) Annual Required Contributions (ARC)

For the period January 1, 2012 through June 30, 2012, the Commission's actual contribution was \$847,800. The required contribution was determined as part of the December 31, 2011, actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 7.25%, and (b) projected salary increases of 7.75% for the first years of employment and 3.75% thereafter.

d) Schedule of Employer Contributions

Year End	Annual Required Contribution (ARC)	Percentage of ARC Cost Contributed	Net Pension Obligation (Benefit)
June 30, 2013	\$ 1,737,849	-	\$ -

e) Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Over (Under) Funded Actuarial Liability as Percentage of Payroll
January 1, 2012	\$ 41,875,499	\$ 50,475,267	\$ (8,599,768)	82.96%	\$ 24,692,831	(34.83%)

f) Notes to Schedules of Employer Contributions and Funding Progress

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

Valuation date	January 1, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	30 year open period
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	7.75% for the first five years of employment; 3.75% thereafter

C. Transit Employees of Tidewater Disability and Retirement Allowance Plan- Prior to Merger

a) Plan Description

Prior to January 1, 2012, Transit Management Company (Subsidiary), a wholly owned subsidiary of the Commission, contributed to the Transit Employees of Tidewater Disability and Retirement Allowance Plan (Plan) which covered principally those employees subject to the Commission's union bargaining agreement who work in Norfolk, Portsmouth, Chesapeake, and Suffolk. The Commission issued a publicly available financial report that included 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 participated in the Plan after 60 days of service with the Subsidiary. Normal pension benefits were 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 was available at age 55 with 10 years of credited service. The amount of pension paid at early retirement was 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 were also provided by the Plan.

b) Funding Policy

The contribution requirements of employees and the Commission were established and could be amended by the terms of the collective bargaining agreement between the Commission and the Union. That agreement provided that employees were required to contribute 3% of compensation received during any month, with a minimum contribution of \$10, while the employer contributed 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 six months ended December 31, 2011, and the year ended June 30, 2011, the Commission's actual contribution was \$827,192 and \$1,378,191, respectively. The required contribution was determined as part of the December 31, 2010, actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 7.25%, and (b) projected salary increases of 7.75% for the first years of employment and 3.75% thereafter.

d) Schedule of Employer Contributions

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

e) Schedule of Funding Progress

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

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

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

Valuation date	January 1, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	1-29 Years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a four-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	7.75% for the first five years of employment; 3.75% thereafter

D. Retirement Plan of Hampton Roads Transportation District Commission – Prior to Merger

a) Plan Description

Prior to January 1, 2012, 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 administered the plan that provided retirement, disability, and death benefits to plan members and beneficiaries. The Commission issued 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 provided that employees are required to contribute 2.5% of their annual salary, while the Commission was required to contribute 6% of annual covered payroll.

c) Annual Required Contributions (ARC)

For the six months ended December 31, 2011, and the year ended June 30, 2011, the Commission's actual contributions to the plan were \$237,492 and \$439,777, respectively. The annual required contribution for the current year was determined as part of the July 1, 2010, actuarial valuation using the entry age normal cost method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and projected salary increases of 7.75% for the first five years of employment; 3.75% thereafter.

d) Schedule of Employer Contributions

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

e) Schedule of Funding Progress

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, 2010	\$ 15,945,080	\$ 16,414,389	\$ (469,309)	97%	\$ 7,329,617	6%
June 30, 2009	\$ 15,825,238	\$ 15,523,412	\$ 301,826	102%	\$ 7,658,250	4%
June 30, 2008	\$ 16,042,183	\$ 14,585,817	\$ 1,456,366	110%	\$ 7,773,590	19%

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

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

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

15. 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, 2012 and 2011, the Commission has accrued \$1,014,236 and \$798,537, respectively, for compensated absences.

16. Contingencies

Self-Insurance

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

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

Workers' Compensation Insurance

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

Federally Assisted Grant Programs

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

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Transportation District Commission of Hampton Roads

Supplementary Information

Year Ended June 30, 2012

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2012

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	\$ 16,563,517	\$ 17,600,000	\$ (1,036,483)
Charters and contracts	13,742	-	13,742
Vanpool rentals	170,138	145,263	24,875
Auxiliary	731,827	200,275	531,552
Nontransportation	189,229	260,666	(71,437)
Total revenues	17,668,453	18,206,204	(537,751)
Subsidies and grants			
Municipal subsidies	28,259,390	29,800,000	(1,540,610)
State operating subsidies	14,112,461	13,200,000	912,461
Federal operating grants	28,695,082	30,800,000	(2,104,918)
Total subsidies and grants	71,066,933	73,800,000	(2,733,067)
Total revenues, subsidies and grants	\$ 88,735,386	\$ 92,006,204	\$ (3,270,818)

**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	\$ 17,668,453
Subsidies and grants	71,066,933
	<u>\$ 88,735,386</u>

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2012

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	\$ 52,379,363	\$ 53,300,000	\$ (920,637)
Materials and supplies	14,309,506	14,200,000	109,506
Insurance - net of ordinary recoveries	6,946,288	8,600,000	(1,653,712)
Purchase of transportation services	8,084,487	7,700,000	384,487
Contractual services	5,665,506	5,600,000	65,506
Utilities	1,312,737	1,700,000	(387,263)
Other	1,083,639	1,200,000	(116,361)
Total transit activity expenses before depreciation and amortization	\$ 89,781,526	\$ 92,300,000	\$ (2,518,474)

**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	\$ 89,781,526
Depreciation and amortization	23,535,796
Self-insurance net increase in net assets	<u>250,455</u>
	<u>\$ 113,567,777</u>

Transportation District Commission of Hampton Roads

Compliance Section

Year Ended June 30, 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***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, 2012, and have issued our report thereon dated December 14, 2012. 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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as Finding 2012-1 and 2012-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as Finding 2012-3.

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*.

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

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

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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 ***Transportation District Commission of Hampton Roads*** and Subsidiary's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) ***Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of ***Transportation District Commission of Hampton Roads'*** major federal programs for the year ended June 30, 2012. 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 ***Transportation District Commission of Hampton Roads*** complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questions costs as item 2012-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Transportation District Commission of Hampton Roads's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit ***Transportation District Commission of Hampton Roads's*** response and accordingly, we express no opinion on the response.

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

Dixon Hughes Goodman LLP

Newport News, Virginia
December 14, 2012

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012	Federal Catalogue Number	Year	Total Expenditures
Department of Transportation			
Direct Payments			
Federal Transit Administration Capital Improvements Grants:			
Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number			
VA 03-0107	Norfolk Light Rail Transit Proj (FFGA)	2007	\$ 95,124
VA 03-0116	Norfolk Light Rail Transit Proj	2007	704,953
VA 04-0035	Fixed Guideway Grant	2008	21,794
VA 04-0050	Southside Facility Project - Admn. Bldg.	2011	6,156,721
VA 05-0039	Fixed Guideway Grant	2008	(7,153)
VA 05-0040	Fixed Guideway Grant	2009	248,184
VA 05-0043	Fixed Guideway Grant	2009	1,154,905
VA 05-0045	Fixed Guideway Grant	2010	41,199
VA 37-X014	IARC Grant	2010	1,055,038
VA 57-X001	New Freedom Grant	2007	454,935
VA 58-0001	Southside Facility Project - Clean Fuels Grant	2010	540,000
VA 66-X004	ARRA STP LRT - Norfolk LRT	2010	474,723
VA 90-X189	Capital Assistance	2000	(457)
VA 90-X262	Capital Assistance	2005	176,183
VA 90-X282	Capital Assistance	2006	193,911
VA 90-X294	Light Rail Transit Project	2007	41
VA 90-X304	Capital Assistance	2007	216,164
VA 90-X320	Capital Assistance	2008	485,385
VA 90-X344	Capital Assistance	2008	624,158
VA 90-X359	5307 Capital Grant	2009	2,306,267
VA 90-X369	5307 Capital Grant	2010	1,469,386
VA 90-X381	5307 Preventative Maintenance	2011	14,928,988
VA 95-X001	LRT STP Grant	2012	2,067,406
VA 95-X014	MAX/Ports Shuttle	2007	244
VA 95-X063	Patrick Henry Mall Transf/VB Rail Study	2009	516,261
VA 95-X064	Hybrid Buses	2009	4,086,749
VA 95-X070	Southside Facility	2010	3,686,606
VA 95-X080	CMAQ Newport News Shelters	2010	88,000
VA 95-X095	LRT Oper/Feeder Bus	2010	6,278,196
VA 95-X096	LRT RSTP CMAQ	2010	10,861,780
VA 95-X097	Transit Resigning	2011	6,741
VA 96-X003	ARRA 5307 Grant	2009	1,704,800
FY13 5307		2012	640,135
Department of Environmental Quality			61,277,368
Brownfield Assessment Grant			
		2011	23,682
Department of Homeland Security			
2007-RL-17-0017	Transit Security Grant	2007	97,075
2009-PU-RI-0378	Transit Security Grant	2009	97,056
	Urban Area Security Initiative Grant	2008	112,422
	Urban Area Security Initiative Grant	2009	97,008
Passed through from Department of Rail and Public Transportation			305,569
47010-04 Regional TDM program Traffic		2010	20,507
47011-09 Regional TDM program Traffic		2011	20,507
Federal Transit Administration Technical Studies Grant and Section 8 Grant			
Total Department of Transportation			376,356
Total Expenditures			\$ 62,704,362

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

See accompanying notes to schedule of expenditures of federal awards.

Transportation District Commission of Hampton Roads

Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

1. General

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

2. Basis of Accounting

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

Transportation District Commission of Hampton Roads

Schedule of Findings and Questioned Costs

June 30, 2012

1. Summary of Auditors' Results

- a. An unqualified opinion was issued on the consolidated financial statements.
- b. Two material weaknesses and one significant deficiency were noted for internal control over financial reporting.
- c. The audit did not disclose any noncompliance material to the consolidated financial statements.
- d. There was one significant deficiency noted in internal control over compliance for major federal programs.
- e. An unqualified opinion was issued on compliance for major programs.
- f. Major programs are:
 - i. Capital Improvement Grants (20.500)
 - ii. Capital and Operating Assistance Formula and Technical Studies Grants (20.507)
- g. The dollar threshold used to distinguish between Type A and Type B programs is \$1,881,331.
- h. The Commission did not qualify as a low-risk auditee.

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

Finding 2012-1

Condition: Operating cash account was not reconciled completely throughout the year. During the year, there were not sufficient procedures in place for reconciling the account.

Criteria: Internal controls should be in place to ensure monthly reconciliations of the operating cash account to the general ledger.

Effect: As a result of this reconciliation not being prepared on a monthly basis, an accurate cash balance may not be determined therefore account balances could be misstated.

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

Commission Response: A finance manager is currently responsible for the bank reconciliation. Early in fiscal year 2012, a financial analyst was hired to review the account reconciliations, research existing discrepancies and develop more detailed procedures for this task. Since July 2012, the reconciliations are completed monthly. Going forward this process will be performed on a monthly basis. The finance manager is also developing a comprehensive document for the reconciliation process to ensure future staff that is responsible for the reconciliation will have the proper training to accomplish this task.

Finding 2012-2

Condition: Some journal entries prepared during the year were posted without proper approval. In addition, some journal entries tested were posted improperly and also posted to incorrect accounts without sufficient supporting documentation.

Criteria: Internal controls should be in place to ensure appropriate preparation, authorization, and approval of the journal entries to prevent management override of controls as well as potential misstatement of account balances.

Effect: As a result of the lack of controls, several journal entries were posted in error and account balances were misstated.

Recommendation: We recommend the journal entry process be reviewed immediately and changes implemented.

Commission Response: To strengthen internal controls, we have implemented a journal entry processing procedure which requires one staff member to create the journal entry and a member of the finance staff to approve and post the entry. To ensure this process is being adhered to, we created an audit log report to identify any instances of the same person creating and posting a journal entry. This report is reviewed monthly.

Finding 2012-3

Condition: Cash receipts during the year were deposited in the operating bank account but not recorded in the Peoplesoft general ledger until several days later. In another instance, cash was received and deposited in the operating bank account in July 2012 but recorded incorrectly in the PeopleSoft general ledger as in June 2012 thus misstating the cash balance at year-end.

Criteria: The controls should be in place to ensure cash is recorded as soon as it is received and recorded in the proper accounting period.

Effect: As a result of the lack of controls, cash balance could be misstated.

Recommendation: We recommend that procedures be established to ensure cash receipts are posted on a daily basis.

Commission Response: We are currently conducting the monthly full reconciliation of the cash account, which will identify and correct these types of mispostings in the future. In addition, we have a cash register log that is compared with the bank on a daily basis and will identify if the ledger date does not agree with the deposit data.

3. Findings and Questioned Costs for Federal Awards

Finding 2012-4

Condition: FTA was due a refund for two federal grants that had funds requested. The Commission requested \$1,135,369 from two grants, however eligible expenses originally allocated to these grants were later reallocated to other grants, thus requiring a refund to the FTA. Per FTA regulations, the Commission should notify the FTA of any excessive or premature withdrawals and those funds should be returned within seven calendars days.

Criteria: Cash management controls should be in place to monitor grant fund requests against eligible expenses during the year.

Effect: As a result of the lack of controls of cash management, grants could be overdrawn thus requiring a refund and potential interest accumulation.

Recommendation: We recommend that someone reviews and manages the requests of federal funds during the year to ensure all eligible expenses are allocated to the correct federal grants.

Commission Response: Eligible costs were recorded in the grant ledgers throughout the year as substantiated by operating modal expenses incurred. We have used this instance as an opportunity to change the self-imposed restrictions dictated by the current internal cost allocation methodology to incorporate the new rail mode of service and related grant revenue. During the year end close process we made a final determination of grant revenue sources for these eligible modal expenses. Based on this review we quickly processed a refund to FTA for these two grants and requested funding from other grants that subsidize operations. We have also used this opportunity to cross train staff and ensure the staff involved with the draw process has a better understanding of the accounting process and procedures related to using federal capital preventative maintenance funds to subsidize operations. The financial manager is help responsible for reviewing, analyzing and monitoring this process.

4. **Status of Prior Year Findings**

Finding 2011-1

Condition: Accounts payable and property and equipment were materially misstated due to a system error in the PeopleSoft software.

Corrective action: We hired additional staff in order to complete a monthly reconciliation of those accounts.