Consolidated Financial Statements
Years Ended
June 30, 2009 and 2008

HRT
Hampton Roads Transit

Transportation District Commission of Hampton Roads

Goodman
& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

Transportation District Commission of Hampton Roads

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Homer Carter, Jr. .... *Senior Vice President for Bus and Rail Operations*
David C. Sullivan .... *Senior Vice President for Information Technology*
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*
James P. Toscano .... *Vice President for Public Affairs and Communications*
Jean-Claude Aurel .... *Vice President for Safety and Risk Management*
James E. Price,Jr. .... *Vice President for Light Rail*
Tim T. Brown .... *Vice President for Engineering*

Finance Staff

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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, 2009 and 2008, as listed in the table of contents. These consolidated financial statements are the responsibility of the management of ***Transportation District Commission of Hampton Roads***. 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 opinion.

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, 2009 and 2008, 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 January 13, 2010, 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.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the ***Transportation District Commission of Hampton Roads*** taken as a whole. The accompanying information listed as supplementary information on pages 26 and 27 in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Goodman & Company L.L.P.

Newport News, Virginia
January 13, 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 basic consolidated financial statements for the year ended June 30, 2009. Following this MD&A are the basic consolidated financial statements of the Commission together with the notes thereto which are essential to a full understanding of the data contained in the basic consolidated financial statements. We encourage readers to read the information presented in conjunction with additional information that we have furnished in the Commission's basic consolidated financial statements, which follow this narrative.

Financial Operations Highlights

Below are highlights of the Commission's activities for fiscal year 2009.

- The increase in net assets for 2009 was $103.9 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 $17.6 million were 8.01% or approximately $1.3 million greater than fiscal year 2008, primarily due to increased passenger revenue.
- Operating expenses of $74.0 million (net of depreciation and amortization) were 11.95% or approximately $7.9 million greater than fiscal year 2008, primarily due to increased personnel and fringe benefit costs.
- Subsidies and grants of $57.2 million were 13.6% or approximately $6.9 million greater than fiscal year 2008.
- At the end of the fiscal year, unrestricted net assets were $2,273,787, an increase of $323,979 and Commission designated funds for self insurance decreased by $258,255 to $1,179,259.

Summary of Operations and Changes in Net Assets

	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating revenues	$ 17,675,190	$ 16,363,530	$ 16,024,133
Operating expenses	84,575,490	76,263,340	70,015,058
Operating loss before subsidies and grants	(66,900,300)	(59,899,810)	(53,990,925)
Subsidies and grants	57,263,369	50,394,765	45,859,566
Operating loss before other income (expenses)	(9,636,931)	(9,505,045)	(8,131,359)
Other income (expenses)	(8,966,101)	(9,933,106)	(10,741,392)
Loss before proceeds from capital grants	(18,603,032)	(19,438,151)	(18,872,751)
Proceeds from capital grants	122,492,587	55,013,712	15,020,925
Change in net assets	$ 103,889,555	$ 35,575,561	$ (3,851,826)

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 $179.5 million at June 30, 2009.

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

	June 30, 2009	June 30, 2008	June 30, 2007
Assets			
Current assets	$ 46,341,167	$ 28,698,416	$ 16,649,591
Capital assets - net	191,777,953	91,860,817	51,730,807
Other assets	2,012,508	109,104	6,047,056
Total assets	240,131,628	120,668,337	74,427,454
Liabilities			
Current liabilities	46,678,962	29,675,226	17,629,904
Long-term liabilities	13,995,000	15,425,000	16,805,000
Total liabilities	60,673,962	45,100,226	34,434,904
Net Assets			
Invested in capital assets	178,363,138	75,055,817	39,215,630
Unrestricted	2,273,787	1,949,808	2,277,306
Commission designated for self-insurance	(1,179,259)	(1,437,514)	(1,500,386)
Total net assets	$ 179,457,666	$ 75,568,111	$ 39,992,550

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:

	2009 Amount	Percent of Total	2008 Amount	Percent of Total	2007 Amount	Percent of Total
Operating						
Passenger fares	$ 16,953,602	95.6%	$ 15,671,379	93.1%	$ 15,389,194	91.4%
Charters and contracts	125,905	.7%	48,872	0.2%	69,046	0.4%
Vanpool rentals	168,817	.9%	144,734	0.8%	129,519	0.8%
Auxiliary	276,053	1.5%	370,495	2.2%	315,411	1.9%
Nontransportation	150,813	.8%	128,050	0.8%	120,963	0.7%
Total operating	17,675,190	99.5%	16,363,530	97.1%	16,024,133	95.2%
Nonoperating						
Gain on sale of capital assets	-	-	83,910	0.5%	40,367	0.2%
Interest income	83,469	.5%	406,255	2.4%	759,618	4.6%
Total nonoperating	83,469	.5%	490,165	2.9%	799,985	4.8%
Total revenues	$ 17,758,659	100.00%	$ 16,853,695	100.00%	$ 16,824,118	100.00%

Expenses

A summary of expenses is as follows:

	2009 Amount	Percent of Total	2008 Amount	Percent of Total	2007 Amount	Percent of Total
Operating						
Labor	$ 29,165,179	31.3%	$ 26,477,853	30.5%	$ 24,437,028	30.0%
Fringe benefits	13,955,007	14.9%	13,197,440	15.2%	12,066,929	14.8%
Depreciation and amortization	10,607,127	11.3%	10,153,014	11.7%	7,253,593	8.9%
Materials and supplies	14,554,686	15.5%	11,790,604	13.6%	11,282,036	13.8%
Insurance - net of ordinary recoveries	3,490,501	3.7%	2,989,774	3.5%	2,789,248	3.4%
Purchase of transportation services	6,700,651	7.2%	5,981,429	6.9%	5,673,287	7.0%
Contractual services	3,806,872	4.1%	3,377,753	3.9%	3,716,817	4.6%
Utilities	790,534	.8%	720,958	0.9%	721,895	0.9%
Other	1,504,933	1.6%	1,574,515	1.8%	922,095	1.1%
Retroactive wage adjustment	-	-	-	-	1,152,130	1.4%
Total operating	84,575,490	90.4%	76,263,340	88.0%	70,015,058	85.8%
Nonoperating						
Loss on sale of capital assets	205,541	.2%	-	-	-	-
Interest expense	877,316	.9%	846,964	1.0%	809,095	1.0%
Noncapitalized grant expenditures	7,966,713	8.5%	9,576,307	11.0%	10,732,282	13.2%
Total nonoperating	9,049,570	9.6%	10,423,271	12.0%	11,541,377	14.2%
Total expenses	$ 93,625,060	100.0%	$ 86,686,611	100.0%	$ 81,556,435	100.0%

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, 2009	Year Ended June 30, 2008	Year Ended June 30, 2007
Cash flows from operating activities	$ (51,107,536)	$ (43,016,167)	$ (42,628,335)
Cash flows from noncapital financing activities	68,651,905	56,347,469	46,770,284
Cash flows from capital and related financing activities	(17,097,644)	(18,289,229)	(9,507,392)
Cash flows from investing activities	86,404	6,448,053	7,482,562
Net change in cash and cash equivalents	533,129	1,490,126	2,117,119
Cash and cash equivalents - beginning of period	6,753,155	5,263,029	3,145,910
Cash and cash equivalents - end of period	$ 7,286,284	$ 6,753,155	$ 5,263,029

The Commission's available cash and cash equivalents increased from $6.8 million at the end of 2008 to $7.2 million at the end of 2009.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2009, the Commission expended $112.6 million on capital activities from grant funds. This amount included $97.9 million (including $10.2 million for land acquisition) for the light rail transportation project, $4.9 million for buses, $5.7 million for new southside facility, $2 million for MIS software, and $2.1 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, 2009, the Commission owed $17,200,000 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, 2009, the Commission owed $15,425,000 on these bonds, with $1,430,000 of principal payments due in fiscal year 2009.

Consolidated Basic Financial Statements

The Commission's basic consolidated 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 basic consolidated 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 and Administration, Hampton Roads Transit, 3400 Victoria Boulevard, Hampton, VA 23661.

Consolidated Statements of Net Assets

June 30,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 7,286,284	$ 6,753,155
Due from governments	23,264,685	19,071,932
Due from cities	12,957,651	-
Accounts receivable	287,349	395,791
Inventories	2,267,833	2,351,686
Prepaid expenses	277,365	125,852
Total current assets	46,341,167	28,698,416
Capital assets - net of accumulated depreciation	191,777,953	91,860,817
Intangible assets - net	2,010,185	103,846
Restricted investments	2,323	5,258
	$240,131,628	$120,668,337
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	$ 17,200,000	$ 6,000,000
Current portion of long-term debt	1,430,000	1,380,000
Acounts payable	18,630,221	14,181,713
Accrued expenses	3,204,902	2,673,850
Self-insurance liability	3,116,145	2,950,850
Unearned reimbursements	919,051	730,515
Advanced capital contributions	2,178,643	1,758,298
Total current liabilities	46,678,962	29,675,226
Long-term debt	13,995,000	15,425,000
Total liabilities	60,673,962	45,100,226
Net assets		
Investment in capital assets	178,363,138	75,055,817
Unrestricted	2,273,787	1,949,808
Commission designated for self-insurance liability	(1,179,259)	(1,437,514)
Total net assets	179,457,666	75,568,111
	$240,131,628	$120,668,337

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2009	2008
Operating revenues		
Passenger fares	$ 16,953,602	$ 15,671,379
Charters and contracts	125,905	48,872
Vanpool rentals	168,817	144,734
Auxiliary	276,053	370,495
Nontransportation	150,813	128,050
	17,675,190	16,363,530
Operating expenses		
Labor	29,165,179	26,477,853
Fringe benefits	13,955,007	13,197,440
Depreciation and amortization	10,607,127	10,153,014
Materials and supplies	14,554,686	11,790,604
Purchase of transportation services	6,700,651	5,981,429
Contractual services	3,806,872	3,377,753
Insurance - net of ordinary recoveries	3,490,501	2,989,774
Other	1,504,933	1,574,515
Utilities	790,534	720,958
	84,575,490	76,263,340
Operating loss before subsidies and grants	(66,900,300)	(59,899,810)
Subsidies and grants	57,263,369	50,394,765
Operating loss before other income (expenses)	(9,636,931)	(9,505,045)
Other income (expenses)		
Interest income	83,469	406,255
Interest expense	(877,316)	(846,964)
(Loss) gain on sale of capital assets	(205,541)	83,910
Noncapitalized grant expenditures	(7,966,713)	(9,576,307)
	(8,966,101)	(9,933,106)
Loss before proceeds from capital grants	(18,603,032)	(19,438,151)
Proceeds from capital grants	122,492,587	55,013,712
Changes in net assets	103,889,555	35,575,561
Net assets - beginning of year	75,568,111	39,992,550
Net assets - end of year	$179,457,666	$ 75,568,111

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,	2009	2008
Cash flows from operating activities		
Receipts from customers and users	$ 17,783,632	$ 16,488,940
Payments to suppliers for goods and services	(26,302,034)	(17,805,005)
Payments to employees	(42,589,134)	(41,700,102)
Net cash from operating activities	(51,107,536)	(43,016,167)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	57,451,905	51,847,469
Increase in note payable - bank	11,200,000	4,500,000
Net cash from noncapital financing activities	68,651,905	56,347,469
Cash flows from capital and related financing activities		
Increase (decrease) in advanced capital contributions	420,345	(234,607)
Interest expense	(877,316)	(846,964)
Acquisition of capital assets and intangible assets	(110,729,804)	(50,363,536)
Noncapitalized grant expenditures	(7,966,713)	(9,576,307)
Proceeds from disposition of capital assets	-	83,910
Proceeds from capital grants	105,342,183	43,611,608
Increase in intangible assets	(1,906,339)	(23,333)
Payments on long-term debt	(1,380,000)	(940,000)
Net cash from capital and related financing activities	(17,097,644)	(18,289,229)
Cash flows from investing activities		
Interest income	83,469	406,255
Decrease in restricted investments	2,935	6,041,798
Net cash from investing activities	86,404	6,448,053
Net change in cash and cash equivalents	533,129	1,490,126
Cash and cash equivalents - beginning of year	6,753,155	5,263,029
Cash and cash equivalents - end of year	$ 7,286,284	$ 6,753,155

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

Consolidated Statements of Cash Flows

Years Ended June 30,	2009	2008
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$ (66,900,300)	$ (59,899,810)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	10,607,127	10,153,014
Change in:		
Accounts receivable	108,442	125,410
Inventories	83,853	(37,751)
Prepaid expenses	(151,513)	33,559
Accounts payable	4,448,508	8,645,352
Accrued expenses	531,052	(2,024,809)
Self-insurance liability	165,295	(11,132)
Net cash from operating activities	$ (51,107,536)	$ (43,016,167)

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

1. Organization and Nature of Business

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

Transit Management Company (Subsidiary) is a wholly owned subsidiary of the Commission. The Subsidiary pays all payroll related expenses for union employees and operates on a break-even basis by having the Commission reimburse the Subsidiary's expenses. Accounts of the Subsidiary are included in the basic consolidated 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 2009 and 2008, $953,522 and $1,030,125, 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 January 13, 2010, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2009 and 2008, the carrying value of the Commission's deposits with banks was $6,170,044 and $4,179,391, respectively, and the bank balance were $10,057,247 and $5,658,958, 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, 2009 and 2008, the Commission had $739,801 and $2,203,676, 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 statue, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

As of June 30, 2009 and 2008, 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*
2009			
Money market funds - Virginia LGIP	$	376,139	-
Other money market funds		739,801	-
Total cash equivalents		1,115,940	-
Total bank deposits		6,170,344	-
Total cash and cash equivalents	$	7,286,284	
2008			
Money market funds - Virginia LGIP	$	369,788	-
Other money market funds		2,203,976	-
Total cash equivalents		2,573,764	-
Total bank deposits		4,179,391	-
Total cash and cash equivalents	$	6,753,155	

* *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:

		2009		2008
Federal Transit Administration	$	16,986,853	$	7,665,520
Commonwealth of Virginia		6,277,832		11,406,412
	$	23,264,685	$	19,071,932

5. Inventories

Inventories consisted of the following:

		2009		2008
Bus and service vehicle parts	$	1,994,987	$	2,079,074
Fuel and oil		272,846		272,612
	$	2,267,833	$	2,351,686

6. **Capital Assets**

A summary of changes in capital assets follows:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets not being depreciated				
Land	$ 2,553,886	$ 10,199,261	$ -	$ 12,753,147
Construction in process:				
Light rail cars	9,257,104	6,171,401	-	15,428,505
Light rail infrastructure	13,120,713	81,554,615	-	94,675,328
Southside facility	-	5,676,340	-	5,676,340
	24,931,703	103,601,617	-	128,533,320
Capital assets being depreciated				
Buses	110,248,427	4,914,863	(7,281,989)	107,881,301
Buildings and improvements	31,815,449	111,281	-	31,926,730
Para transit & service vans	7,744,839	606,370	(21,310)	8,329,899
Pedestrian ferries and docks	5,926,314	627,358	-	6,553,672
Fare collection equipment	9,091,492	615,042	-	9,706,534
Shop and garage equipment	4,676,270	-	(82,650)	4,593,620
Radio and communications equipment	8,733,587	-	(795)	8,732,792
Management information system	3,896,467	60,000	(6,906)	3,949,561
Furniture and office equipment	2,008,525	8,000	(3,379)	2,013,146
Bus shelters and signs	2,479,756	70,433	-	2,550,189
Service vehicles	550,113	29,307	-	579,420
Supervisory vehicles	552,569	-	-	552,569
	187,723,808	7,042,654	(7,397,029)	187,369,433
Less - accumulated depreciation	(120,794,694)	(10,485,223)	7,155,117	(124,124,800)
	66,929,114	(3,442,569)	(241,912)	63,244,633
	$ 91,860,817	$ 100,159,048	$ (241,912)	$ 191,777,953

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:

	2009	2008
City of Chesapeake	$ (106,386)	$ (103,899)
City of Hampton	370,917	204,406
City of Newport News	216,492	209,825
City of Norfolk	(53,296)	170
City of Portsmouth	773,905	483,596
City of Suffolk	5,901	25,813
City of Virginia Beach	(288,482)	(89,396)
	$ 919,051	$ 730,515

8. **Note Payable - Bank**

The Commission has a revolving line of credit of $20,000,000, which matures December 31, 2009. 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 quarterly at 68% and monthly at 78% at June 30, 2009 and 2008, respectively, of the London Interbank Offered Rate (LIBOR) plus 166 and 75 basis points, respectively, (2.11% and 2.67% at June 30, 2009 and 2008, respectively). At June 30, 2009 and 2008, the Commission owed $17,200,000 and $6,000,000, respectively, against the line of credit.

9. **Long-Term Debt**

Following is a summary of debt transactions of the Commission:

	2009	2008
Balance - July 1	$ 16,805,000	$ 17,745,000
Increases	-	-
Decreases	1,380,000	940,000
Balance - June 30	$ 15,425,000	$ 16,805,000
Amount due within one year	$ 1,430,000	$ 1,380,000

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

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

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

Debt service is as follows:

Fiscal Year Ending June 30,	Principal	Interest
2010	$ 1,430,000	$ 639,790
2011	1,490,000	581,570
2012	1,560,000	514,730
2013	1,630,000	441,105
2014	1,705,000	361,966
2015-2017	7,610,000	652,090
	$ 15,425,000	$ 3,191,251

10. Operating Lease

In 2008, the Commission entered into an operating agreement to lease warehouse and storage facilities from Ford Motor Company expiring in April 2011. For 2009, lease expense was $70,000.

Future minimum lease payments under this lease are as follows:

2010	$ 420,000
2011	350,000
	$ 770,000

11. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	2009	2008
Federal	$ 22,074,219	$ 18,792,070
State	12,290,454	11,257,053
Local	22,898,696	20,345,642
	$ 57,263,369	$ 50,394,765

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, 2009 and 2008, contributions received from local governments exceeded amounts expended by $2,178,643 and $1,758,298, respectively, and are shown in the accompanying consolidated statement 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, 2009 and 2008, was 1.71% and 2.28%, respectively.

c) Annual Required Contribution (ARC)

For the years ended June 30, 2009 and 2008, the Commission's actual contribution of $161,122 and $167,313, 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, 2009	$ 161,122	100%	$-0-
Year ended June 30, 2008	$ 167,313	100%	$-0-
Year ended June 30, 2007	$ 142,984	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, 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%
June 30, 2006	$ 15,147,273	$ 12,653,112	$ 2,494,161	119.7%	$ 5,786,760	43.2%

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, 2008
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	3.75% to 5.60%
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, 2009 and 2008, the Commission's actual contribution was $1,267,157 and $1,278,766, respectively. The required contribution was determined as part of the December 31, 2008, 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

Year End	Annual Required Contribution (ARC)	Percentage of ARC Cost Contributed	Net Pension Obligation (Benefit)
December 31, 2008	$ 1,042,249	131%	$ (321,391)
December 31, 2007	$ 848,497	123%	$ (200,660)
December 31, 2006	$ 925,716	119%	$ (175,886)

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	$ 21,111,994	$ 30,740,682	$ (9,628,688)	68.68%	$ 13,496,510	(71.34%)
December 31, 2008	$ 25,019,440	$ 30,172,362	$ (5,152,922)	82.92%	$ 13,703,277	(37.64%)
December 31, 2007	$ 23,440,993	$ 28,741,711	$ (5,300,778)	81.56%	$ 10,514,208	(50.42%)

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, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	18 Years from January 1, 2009, for the remaining unfunded liability
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, 2009 and 2008, the Commission's actual contributions to the plan were $436,922 and $469,800, respectively. The annual required contribution for the current year was determined as part of the July 1, 2008, 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, 2009	$ 463,108	94%	$ 32,878
June 30, 2008	$ 380,720	124%	$ (89,080)
June 30, 2007	$ 378,464	100%	$ -

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, 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%
June 30, 2006	$ 14,197,581	$ 12,911,334	$ 1,286,247	110%	$ 6,328,829	20%

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, 2008
Actuarial cost method	Entry Age Normal
Asset valuation method	IRS Method 16 (Revenue Procedure 2000-40) – Actuarial value of assets set equal to market value on July 1, 2001. For subsequent years, 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 and 2008, were $50,915 and $60,452, respectively. 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:

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

All nonunion employees may accumulate annual leave up to a maximum of 320 hours to be carried into any one calendar year or to be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2009 and 2008, the Commission has accrued $668,580 and $642,419, 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. Management retained a consultant to prepare a "cost to complete" analysis and to project a revised implementation date. While the consultant's final report is not expected to be available until February 2010, preliminary indications suggest that the revised project cost could be $325 million or more, with a revised implementation date in the March 2011 timeframe.

At June 30, 2009, the Commission had expended approximately $139 million for this project.

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Transportation District Commission of Hampton Roads

Supplementary Information

Year Ended June 30, 2009

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

Year Ended June 30, 2009

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	$ 16,953,602	$ 16,469,530	$ 484,072
Charters and contracts	125,905	-	125,905
Vanpool rentals	168,817	109,341	59,476
Auxiliary	276,053	400,550	(124,497)
Nontransportation	150,813	405,929	(255,116)
Total revenues	17,675,190	17,385,350	289,840
Subsidies and grants			
Municipal subsidies	22,898,696	22,783,679	115,017
State operating subsidies	12,290,454	13,000,000	(709,546)
Federal operating grants	22,074,219	23,833,959	(1,759,740)
Total subsidies and grants	57,263,369	59,617,638	(2,354,269)
Total revenues, subsidies and grants	$ 74,938,559	$ 77,002,988	$ (2,064,429)

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	$ 17,675,190
Subsidies and grants	57,263,369
	$ 74,938,559

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2009

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	$ 43,120,186	$ 45,206,939	$ (2,086,753)
Materials and supplies	14,554,686	15,277,187	(722,501)
Insurance - net of ordinary recoveries	3,748,756	4,081,312	(332,556)
Purchase of transportation services	6,700,651	6,463,167	237,484
Contractual services	3,806,872	3,581,330	225,542
Utilities	790,534	791,741	(1,207)
Other	1,504,933	1,601,312	(96,379)
Total transit activity expenses before depreciation and amortization	$ 74,226,618	$ 77,002,988	$ (2,776,370)

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	$ 74,226,618
Depreciation and amortization	10,607,127
Self insurance net decrease in net assets	(258,255)
	$ 84,575,490

Transportation District Commission of Hampton Roads

Compliance Section

Year Ended June 30, 2009

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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, 2009, and have issued our report thereon dated January 13, 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 basis for designing our auditing procedures for the purpose of expressing our opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ***Transportation District Commission of Hampton Roads'*** ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the ***Transportation District Commission of Hampton Roads'*** financial statements that is more than inconsequential will not be prevented or detected by the ***Transportation District Commission of Hampton Roads'*** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the ***Transportation District Commission of Hampton Roads'*** internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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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 8, 2009.

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 L.L.P.

Newport News, Virginia
January 13, 2010

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

Report on Compliance with Requirements Applicable to 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 (Commission), 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, 2009. The Commission's 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 Commission's management. Our responsibility is to express an opinion on the Commission's 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 Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's 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, 2009.

Internal Control Over Compliance

The management of the Commission 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 Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in the ***Transportation District Commission of Hampton Roads'*** internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ***Transportation District Commission of Hampton Roads'*** ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the ***Transportation District Commission of Hampton Roads'*** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the ***Transportation District Commission of Hampton Roads'*** internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Commission, 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 L.L.P.

Newport News, Virginia
January 13, 2010

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Year	Federal Catalogue Number		Total Expenditures
Department of Transportation					
Direct Payments					
Federal Transit Administration Capital Improvements Grants:					
VA 03-0061	Virginia Beach Multimodal Facility	1997	20.500	*	$ 185,271
VA 03-0082	Regional Bus Plan	2002	20.500	*	5,376,639
VA 03-0107	Light Rail Transit Project	2007	20.500	*	57,912,618
VA 03-0110	Fixed Guideway Grant	2006	20.500	*	642,661
VA 05-0037	Fixed Guideway Grant	2007	20.500	*	148,776
VA 05-0039	Fixed Guideway Grant	2007	20.500	*	354,371
VA 05-0040	Fixed Guideway Grant	2009	20.500	*	1,236,534
VA 15-X001	Light Rail Transit Project	2006	20.500	*	5,484
VA 37-X014	JARC Grant	2007	20.500	*	75,185
VA 56-0001	ARRA Fixed Guideway	2009	20.500	*	437,148
VA 57-X001	New Freedom Grant	2007	20.500	*	49,716
VA 90-X206	Capital Assistance	2001	20.500	*	71,519
VA 90-X214	Capital Assistance	2002	20.500	*	67,840
VA 90-X144	Capital Assistance	2005	20.500	*	61,662
VA 90-X228	Capital Assistance	2003	20.500	*	2,152,320
VA 90-X239	Capital Assistance	2004	20.500	*	7,436
VA 90-X259	Capital Assistance	2005	20.500	*	14,281
VA 90-X262	Capital Assistance	2006	20.500	*	727,760
VA 90-X282	Capital Assistance	2006	20.500	*	(622,163)
VA 90-X304	Capital Assistance	2007	20.500	*	1,676,114
VA 90-X294	Light Rail Transit Project	2007	20.500	*	(26,620)
VA 90-X295	Light Rail Transit Project	2007	20.500	*	962,079
VA 90-X344	Capital Assistance	2009	20.500	*	13,908,405
VA 95-X001	Norfolk MOS	2007	20.500	*	5,903,336
VA 95-X014	MAX/Ports Shuttle	2009	20.500	*	1,828,941
VA 95-X016	Traffix Vans	2008	20.500	*	430,458
VA 96-X003	ARRA 5307 Grant	2009	20.500	*	43,659
VA 90-X320	Capital Assistance	2008	20.500	*	(1,370,923)
Total all capital improvement grants					92,260,507
Department of Homeland Security					
	Transit Security Grant	2007	97.075		52,382
	Transit Security Supplemental Grant	2007	97.075		67,840
	Urban Area Security Initiative Grant	2007	97.008		59,300
					179,522
Passed through from Department of Rail and Public Transportation					
47005-21 Regional TDM program Traffix		2007	20.507	*	107,852
47008-01 Regional TDM program Traffix		2008	20.507	*	932,227
47008-07 Regional TDM program Traffix		2009	20.507	*	733,940
Passed through from Southeastern Virginia Planning District Commission					
Federal Transit Administration Technical Studies Grant and Section 8 Grant			20.507	*	219,147
Total Department of Transportation					$ 94,433,195

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

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2009

1. General

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

2. Basis of Accounting

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

June 30, 2009

1. Summary of Auditors' Results

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

b. There were no significant deficiencies noted in internal control to disclose.

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 did not disclose any audit findings required to be reported.

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 $2,832,996.

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

None

3. Findings and Questioned Costs for Federal Awards

None

4. Status of Prior Year Findings

There were no findings for the prior year.