Consolidated Financial Statements
Years Ended
June 30, 2007 and 2006

Hampton Roads Transit

Transportation District Commission of Hampton Roads

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

Transportation District Commission of Hampton Roads

Commissioners

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Grace R. Routten, Vice Chairman

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John E. Uhrin
James L. Wood
W. Randy Wright

Other Officials

Michael S. Townes .... *President and Chief Executive Officer*
Larry W. Davenport .... *Vice President for Finance*
Karen C. Burnette .... *Vice President for Administration*
Michael H. Perry .... *Vice President for Operations*
Jayne B. Whitney .... *Vice President for Development*
David C. Sullivan .... *Vice President for Information Technology*
Vincent Jackson .... *Vice President for Service Development*
James P. Toscano .... *Vice President for Public Affairs and Communications*

Finance Staff

Barry O. Herring .... *Chief Accounting Officer*
Hien B. Hoang .... *Director of Accounting*
Keisha L. Branch .... *Chief Grants and Budget Officer*
Wright C. Parkes .... *Director of Procurement*
Catherine D. Young .... *Revenue Services Manager*
David L. Stoepker .... *Director of Risk Management*

Transportation District Commission of Hampton Roads

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Goodman & COMPANY

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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, 2007 and 2006, 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, 2007 and 2006, 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 5, 2007, 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 important 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.

701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Commission taken as a whole. The accompanying information listed as supplementary information on pages 25 through 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, LLP

Newport News, Virginia
December 5, 2007

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, 2007. 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

Effective October 1, 2004, the Commission changed its fiscal year end to June 30 to coincide with the fiscal year end of its participating localities. Below are highlights of the Commission's activities for fiscal year 2007.

- The decrease in net assets for 2007 was $3.9 million. Of this amount, $3.2 million of the decrease was attributable to capital assets being reduced by over $7.3 million in depreciation, while only $4.1 million was acquired by capital grant funding.
- Operating revenues of $16 million were 2.27% or approximately $350,000 greater than fiscal year 2006, primarily due to increased passenger revenue.
- Operating expenses of $62.7 million (net of depreciation and amortization) were 2.20% or approximately $1.4 million greater than fiscal year 2006, primarily due to increased personnel and fringe benefit costs.
- Subsidies and grants of $45.9 million were 4.34% or approximately $1.9 million greater than fiscal year 2006.
- At the end of the fiscal year, unrestricted net assets were $2,277,306, a decrease of $348,524 and Commission designated funds for self insurance decreased by $338,573 to $(1,500,386).
- During 2007, the Commission had reduced its outstanding balance on the line of credit by $8,600,000, due to the collection of government receivables.

Summary of Operations and Changes in Net Assets

	Year Ended June 30, 2007	Year Ended June 30, 2006	Nine Months Ended June 30, 2005
Operating revenues	$ 16,024,133	$ 15,668,426	$ 11,700,112
Operating expenses	70,015,058	70,531,890	52,240,736
Operating loss before subsidies and grants	(53,990,925)	(54,863,464)	(40,540,624)
Subsidies and grants	45,859,566	43,951,262	30,245,875
Operating loss before other income (expenses)	(8,131,359)	(10,912,202)	(10,294,749)
Other income (expenses)	(10,741,392)	(6,883,632)	(4,036,545)
Loss before proceeds from capital grants	(18,872,751)	(17,795,834)	(14,331,294)
Proceeds from capital grants	15,020,925	9,556,240	5,878,730
Change in net assets	$ (3,851,826)	$ (8,239,594)	$ (8,452,564)

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 $40 million at June 30, 2007.

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

	June 30, 2007	June 30, 2006	June 30, 2005
Assets			
Current assets	$ 16,649,591	$ 22,157,290	$ 20,701,999
Capital assets - net	51,730,807	42,380,359	49,259,964
Other assets	6,047,056	12,770,000	-
Total assets	74,427,454	77,307,649	69,961,963
Liabilities			
Current liabilities	17,629,904	20,693,273	17,877,933
Long-term liabilities	16,805,000	12,770,000	-
Total liabilities	34,434,904	33,463,273	17,877,933
Net Assets			
Invested in capital assets	39,215,630	42,380,359	49,259,964
Unrestricted	2,277,306	2,625,830	2,609,307
Commission designated for self-insurance	(1,500,386)	(1,161,813)	214,699
Total net assets	$ 39,992,550	$ 43,844,376	$ 52,083,970

The largest portion of the Commission's net assets each period (98% at June 30, 2007), 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 for the years ended June 30, 2007 and 2006, and nine months ended June 30, 2005, is as follows:

	2007 Amount	Percent of Total	**2006** Amount	Percent of Total	**2005** Amount	Percent of Total
Operating						
Passenger fares	$ 15,389,194	91.4%	$ 14,851,755	93.5%	$ 10,989,655	93.7%
Charters and contracts	69,046	0.4%	104,876	0.6%	118,095	1.0%
Vanpool rentals	129,519	0.8%	116,131	0.7%	69,551	0.6%
Auxiliary	315,411	1.9%	441,190	2.8%	429,110	3.7%
Nontransportation	120,963	0.7%	154,474	1.0%	93,701	0.8%
Total operating	16,024,133	95.2%	15,668,426	98.6%	11,700,112	99.8%
Nonoperating						
Gain on sale of capital assets	40,367	0.2%	81,715	0.5%	-	0.0%
Interest income	759,618	4.6%	135,623	0.9%	25,602	0.2%
Total nonoperating	799,985	4.8%	217,338	1.4%	25,602	0.2%
Total revenues	$ 16,824,118	100.00%	$ 15,885,764	100.00%	$ 11,725,714	100.00%

Expenses

A summary of expenses for the years ended June 30, 2007 and 2006, and the nine months ended June 30, 2005, is as follows:

	2007 Amount	Percent of Total	2006 Amount	Percent of Total	2005 Amount	Percent of Total
Operating						
Labor	$ 24,437,028	30.0%	$ 23,577,151	30.4%	$ 17,436,678	31.0%
Fringe benefits	12,066,929	14.8%	11,536,164	14.9%	8,596,354	15.3%
Depreciation and amortization	7,253,593	8.9%	9,125,980	11.8%	9,533,434	16.9%
Materials and supplies	11,282,036	13.8%	10,865,827	14.0%	6,711,999	11.9%
Insurance - net of ordinary recoveries	2,789,248	3.4%	3,459,879	4.5%	1,886,158	3.4%
Purchase of transportation services	5,673,287	7.0%	5,718,726	7.4%	4,273,673	7.6%
Contractual services	3,716,817	4.6%	3,377,825	4.4%	2,407,980	4.3%
Utilities	721,895	0.9%	809,020	1.0%	586,301	1.0%
Other	922,095	1.1%	1,043,342	1.3%	808,159	1.4%
Retroactive wage adjustment	1,152,130	1.4%	1,017,976	1.3%	-	0.0%
Total operating	70,015,058	85.8%	70,531,890	90.9%	52,240,736	92.8%
Nonoperating						
Interest expense	809,095	1.0%	129,102	0.2%	47,024	0.1%
Noncapitalized grant expenditures	10,732,282	13.2%	6,971,868	9.0%	4,015,123	7.1%
Total nonoperating	11,541,377	14.2%	7,100,970	9.1%	4,062,147	7.2%
Total expenses	$ 81,556,435	100.0%	$ 77,632,860	100.0%	$ 56,302,883	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, 2007	Year Ended June 30, 2006	Nine Months Ended June 30, 2005
Cash flows from operating activities	$ (42,628,335)	$ (42,928,468)	$ (33,179,000)
Cash flows from noncapital financing activities	46,770,284	43,463,375	21,957,892
Cash flows from capital and related financing activities	(9,507,392)	12,706,458	9,737,278
Cash flows from investing activities	7,482,562	(12,634,377)	25,602
Net change in cash and cash equivalents	2,117,119	606,988	(1,458,228)
Cash and cash equivalents - beginning of period	3,145,910	2,538,922	3,997,150
Cash and cash equivalents - end of period	$ 5,263,029	$ 3,145,910	$ 2,538,922

The Commission's available cash and cash equivalents increased from $3.1 million at the end of 2006 to $5.3 million at the end of 2007.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2007, the Commission expended $15.0 million on capital activities from grant funds. This included $7.7 million for the Light Rail Transportation project and other planning, and $4.0 million for capital asset purchases for transportation services. The other $12 million in capital acquisitions were from the use of proceeds from the VRA debt detailed below.

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, 2007, the Commission owed $1,500,000 against its $12,000,000 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 will begin October 1, 2007 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.

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 Vice President for Finance, Hampton Roads Transit, 3400 Victoria Boulevard, Hampton, VA 23661.

Transportation District Commission of Hampton Roads

Consolidated Statements of Net Assets

June 30,	2007	2006 (A)
Assets		
Current assets		
Cash and cash equivalents	$ 5,263,029	$ 3,145,910
Due from governments	8,173,973	15,000,554
Due from cities	218,044	1,297,149
Accounts receivable	521,201	275,745
Inventories	2,313,934	2,345,444
Prepaid expenses	159,410	92,488
Total current assets	16,649,591	22,157,290
Capital assets - net of accumulated depreciation	51,650,294	42,284,964
Intangible assets - net	80,513	95,395
Restricted investments	6,047,056	12,770,000
	$ 74,427,454	$ 77,307,649
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	$ 1,500,000	$ 10,100,000
Current portion of long-term debt	940,000	-
Acounts payable	5,536,360	2,835,143
Accrued expenses	4,698,659	3,046,306
Self-insurance liability	2,961,981	3,181,785
Prepaid local subsidies	-	114,541
Advanced capital contributions	1,992,904	1,415,498
Total current liabilities	17,629,904	20,693,273
Long-term debt	16,805,000	12,770,000
Total liabilities	34,434,904	33,463,273
Net assets		
Investment in capital assets	39,215,630	42,380,359
Unrestricted	2,277,306	2,625,830
Commission designated for self-insurance liability	(1,500,386)	(1,161,813)
Total net assets	39,992,550	43,844,376
	$ 74,427,454	$ 77,307,649

(A) As restated

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,	2007	2006 (A)
Operating revenues		
Passenger fares	$ 15,389,194	$ 14,851,755
Charters and contracts	69,046	104,876
Vanpool rentals	129,519	116,131
Auxiliary	315,411	441,190
Nontransportation	120,963	154,474
	16,024,133	15,668,426
Operating expenses		
Labor	24,437,028	23,577,151
Fringe benefits	12,066,929	11,536,164
Depreciation and amortization	7,253,593	9,125,980
Materials and supplies	11,282,036	10,865,827
Insurance - net of ordinary recoveries	2,789,248	3,459,879
Purchase of transportation services	5,673,287	5,718,726
Contractual services	3,716,817	3,377,825
Utilities	721,895	809,020
Other	922,095	1,043,342
Retroactive wage adjustment	1,152,130	1,017,976
	70,015,058	70,531,890
Operating loss before subsidies and grants	(53,990,925)	(54,863,464)
Subsidies and grants	45,859,566	43,951,262
Operating loss before other income (expenses)	(8,131,359)	(10,912,202)
Other income (expenses)		
Interest income	759,618	135,623
Interest expense	(809,095)	(129,102)
Gain on sale of capital assets	40,367	81,715
Noncapitalized grant expenditures	(10,732,282)	(6,971,868)
	(10,741,392)	(6,883,632)
Loss before proceeds from capital grants	(18,872,751)	(17,795,834)
Proceeds from capital grants	15,020,925	9,556,240
Changes in net assets	(3,851,826)	(8,239,594)
Net assets - beginning of year	43,844,376	52,083,970
Net assets - end of year	$39,992,550	$43,844,376

(A) As restated

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,	2007	2006 (A)
Cash flows from operating activities		
Receipts from customers and users	$ 16,034,776	$ 16,264,742
Payments to suppliers for goods and services	(22,573,684)	(24,358,970)
Payments to employees	(36,089,427)	(34,834,240)
Net cash from operating activities	(42,628,335)	(42,928,468)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	55,370,284	42,363,375
Increase (decrease) in note payable - bank	(8,600,000)	1,100,000
Net cash from noncapital financing activities	46,770,284	43,463,375
Cash flows from capital and related financing activities		
Increase in advanced capital contributions	577,406	631,196
Interest expense	(809,095)	(129,102)
Acquisition of capital assets and intangible assets	(16,523,528)	(2,500,259)
Noncapitalized grant expenditures	(10,732,282)	(6,971,868)
Proceeds from disposition of capital assets	40,367	81,715
Proceeds from capital grants	13,045,253	8,824,776
Increase in intangible assets	(80,513)	-
Proceeds from long-term debt	4,975,000	12,770,000
Net cash from capital and related financing activities	(9,507,392)	12,706,458
Cash flows from investing activities		
Interest income	759,618	135,623
Decrease (increase) in restricted investments	6,722,944	(12,770,000)
Net cash from investing activities	7,482,562	(12,634,377)
Net change in cash and cash equivalents	2,117,119	606,988
Cash and cash equivalents - beginning of year	3,145,910	2,538,922
Cash and cash equivalents - end of year	$ 5,263,029	$ 3,145,910

(A) As restated

Consolidated Statements of Cash Flows

Years Ended June 30,	2007	2006 (A)
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$(53,990,925)	$(54,863,464)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	7,253,593	9,125,980
Change in:		
Accounts receivable	10,643	596,316
Inventories	31,510	198,496
Prepaid expenses	(66,922)	347,811
Accounts payable	2,701,217	(608,470)
Accrued expenses	1,652,353	1,297,051
Self-insurance liability	(219,804)	977,812
Net cash from operating activities	$(42,628,335)	$(42,928,468)

(A) As restated

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

June 30, 2007

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 2007 and 2006, $458,334 and $511,893, respectively, of advertising costs were charged to operations.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2007 and 2006, the carrying value of the Commission's deposits with banks was $2,306,812 and $584,735, respectively, and the bank balance totaled $3,088,749 and $898,979, 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, 2007 and 2006, the Commission had $3,588,040 and $2,224,822, 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 Vice President for Finance, 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, 2007 and 2006, 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.

As of June 30, 2007 and 2006, 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*
2007		
Money market funds - Virginia LGIP	$ 354,540	-
Other money market funds	2,601,677	-
Total cash equivalents	2,956,217	-
Total bank deposits	2,306,812	-
Total cash and cash equivalents	$ 5,263,029	
2006		
Money market funds - Virginia LGIP	$ 336,353	-
Other money market funds	2,224,822	-
Total cash equivalents	2,561,175	-
Total bank deposits	584,735	-
Total cash and cash equivalents	$ 3,145,910	

* *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 at June 30, 2007 and 2006:

	2007	2006
Federal Transit Administration	$ 5,359,659	$ 13,146,705
Commonwealth of Virginia	2,814,314	1,853,849
	$ 8,173,973	$ 15,000,554

5. Inventories

Inventories consisted of the following at June 30, 2007 and 2006:

	2007	2006
Bus and service vehicle parts	$ 2,071,481	$ 2,117,399
Fuel and oil	242,453	228,045
	$ 2,313,934	$ 2,345,444

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated				
Land	$ 2,077,496	$ -	$ -	$ 2,077,496
Capital assets being depreciated:				
Buses	84,067,723	12,716,931	(4,426,445)	92,358,209
Buildings and improvements	30,642,780	729,722	-	31,372,502
Para transit & service vans	7,549,761	17,601	(87,831)	7,479,531
Pedestrian ferries and docks	5,776,447	-	-	5,776,447
Fare collection equipment	7,535,571	154,667	-	7,690,238
Shop and garage equipment	4,681,063	-	(788)	4,680,275
Radio and communications equipment	4,259,031	2,438,124	(57)	6,697,098
Management information system	3,411,852	176,782	(628)	3,588,006
Furniture and office equipment	2,090,379	144,802	(240,114)	1,995,067
Bus shelters and signs	2,322,224	48,694	-	2,370,918
Service vehicles	520,691	17,159	(28,603)	509,247
Supervisory vehicles	494,846	79,045	(37,217)	536,674
	153,352,368	16,523,527	(4,821,683)	165,054,212
Less - accumulated depreciation	(113,144,900)	(7,158,197)	4,821,683	(115,481,414)
	40,207,468	9,365,330	-	49,572,798
	$ 42,284,964	$ 9,365,330	$ -	$ 51,650,294

7. Restricted Investments

Restricted investments represent proceeds from financing arrangements with the Virginia Resources Authority as disclosed in Note 10. A portion of these proceeds were used to purchase buses and related equipment during fiscal year 2007. These funds are currently invested with the Virginia State Non-Arbitrage Program (SNAP), as required by the financing arrangement.

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 as of June 30, 2007 and 2006:

	2007	2006
City of Chesapeake	$ 40	$ (63,986)
City of Hampton	121,309	(242,056)
City of Newport News	528,176	181,943
City of Norfolk	240,146	(834,162)
City of Portsmouth	322,107	50,886
City of Suffolk	13,774	20,324
City of Virginia Beach	726,510	607,878
	1,952,062	(279,173)
Less - unallocated retroactive wage payments (see Note 16)	(2,170,106)	(1,017,976)
	$ (218,044)	$ (1,297,149)

9. Note Payable - Bank

The Commission has a revolving line of credit of $12,000,000, which matures December 31, 2007. Advances on the line of credit were collateralized by the pledging of all revenues, federal grants and non-federal operating subsidies of the Commission. Interest on advances is payable monthly at 78% of the London Interbank Offered Rate (LIBOR) plus 75 basis points (4.90% and 4.75% at June 30, 2007 and 2006, respectively). As of June 30, 2007 and 2006, the Commission owed $1,500,000 and $10,100,000, respectively, against the line of credit.

10. Long-Term Debt

Following is a summary of debt transactions of the Commission for the fiscal year ended June 30, 2007 and 2006:

	July 1, 2006	Increases	Decreases	June 30, 2007	Amounts Due Within One Year
Virginia Resources Authority	$ 12,770,000	$ 4,975,000	$ -	$ 17,745,000	$ 940,000

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 begin 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
2008	$ 940,000	$ 743,740
2009	1,380,000	723,405
2010	1,430,000	669,892
2011	1,490,000	610,815
2012	1,560,000	551,806
2013 - 2018	10,945,000	1,701,743
	$ 17,745,000	$ 5,001,401

11. Subsidies and Grants

Subsidies and grants for operating purposes were as follows for the year ended June 30, 2007 and 2006:

	2007	2006
Federal	$ 16,782,724	$ 17,500,786
State	11,031,454	11,735,606
Local	18,045,388	14,714,870
	$ 45,859,566	$ 43,951,262

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, 2007 and 2006, contributions received exceed amounts expended from local governments by $1,992,904 and $1,415,498, 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 follows:

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 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 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, 2007 and 2006, was 2.28% and 1%, respectively.

c) Annual Required Contribution (ARC)

For the years ended June 30, 2007 and 2006, the Commission's actual contribution of $142,984 and $55,962, respectively, was equal to the Commission's required ARC. The required contribution was determined as part of the June 30, 2005, 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, 2007	$ 142,984	100%	$-0-
Year ended June 30, 2006	$ 55,962	100%	$-0-
Nine months ended June 30, 2005	$ 38,648	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, 2006	$ 15,147,273	$ 12,653,112	$ 2,494,161	119.7%	$ 5,786,760	43.2%
June 30, 2005	$ 14,322,420	$ 11,979,070	$ 2,343,350	119.6%	$ 5,200,184	45.1%
June 30, 2004	$ 14,036,498	$ 10,929,522	$ 3,106,976	128.4%	$ 5,577,491	55.7%

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, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	2.50%
Remaining amortization period	20 Years
Asset valuation method	Modified 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, 2007 and 2006, the Commission's actual contribution was $1,147,855 and $1,081,614, respectively. The required contribution was determined as part of the December 31, 2006, 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, 2006	$	925,716	119%	$	(175,886)
December 31, 2005	$	1,028,060	112%	$	(123,367)
December 31, 2004	$	953,534	97%	$	28,606

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, 2006	$	23,440,993	$	28,741,711	$ (5,300,778)	81.56%	$	11,508,069	(46.06%)
December 31, 2005	$	21,832,311	$	27,334,991	$ (5,502,680)	79.87%	$	11,061,738	(49.75%)
December 31, 2004	$	20,217,971	$	26,259,406	$ (6,041,435)	76.99%	$	11,482,931	(52,61%)

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, 2007
Actuarial cost method	Entry Age Normal cost method
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	11 Years from January 1, 2007 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	5.0%

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, 2007 and 2006, the Commission's actual contributions to the plan were $379,639 and $380,086, respectively. The annual required contribution for the current year was determined as part of the July 1, 2006, 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 5.0% 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, 2007	$	409,009	93%	$	29,370
June 30, 2006	$	422,018	94%	$	26,376
June 30, 2005	$	365,419	97%	$	9,491

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, 2006	$ 14,197,581	$ 12,911,334	$ 1,286,247	110%	$ 6,834,118	19%
June 30, 2005	$ 12,974,857	$ 12,180,643	$ 794,214	107%	$ 6,594,031	12%
June 30, 2004	$ 12,132,446	$ 11,108,626	$ 1,023,820	109%	$ 6,451,546	16%

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, 2006
Actuarial cost method	Entry Age Normal Cost Method
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	7.0%
Projected salary increases	5.0%

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, 2007 and 2006, totaled $61,918 and $71,785, respectively.

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 carryover into the next calendar year. At June 30, 2007 and 2006, the Commission has accrued $543,345 and $533,318, 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 $5,000,000 per occurrence. Effective July 1, 2007, the amount of external insurance coverage was increased 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. Subsequent Event

The Commission was party to a collective bargaining agreement through September 30, 2005, with Amalgamated Transit, Local Union No. 1177 (Union). Employee benefits provided by this agreement included health, welfare and pension. Since September 30, 2005, the Commission and the Union had been operating on a month-to-month basis pending the results of arbitration. On October 12, 2007, the Commission and the Union agreed to a new collective bargaining agreement, which will expire on June 30, 2010. The new agreement became effective on October 12, 2007, for all provisions, except for certain wage provisions that were retroactive to October 1, 2005. These wage provisions required that retroactive wage payments be made to active employees on the date of the agreement, and any employees who retired between October 1, 2005, and the date of this agreement. At June 30, 2007, the Commission has accrued $2,170,106 for these retroactive wage payments. The 2006 financial statements have been restated to recognize $1,017,976 of retroactive wage payments attributable to that year.

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Transportation District Commission of Hampton Roads

Supplementary Information

Year Ended June 30, 2007

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

Year Ended June 30, 2007

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	$ 15,389,194	$ 15,693,201	$ (304,007)
Charters and contracts	69,046	29,593	39,453
Vanpool rentals	129,519	144,096	(14,577)
Auxiliary	315,411	323,004	(7,593)
Nontransportation	120,963	212,860	(91,897)
Total revenues	16,024,133	16,402,754	(378,621)
Subsidies and grants			
Municipal subsidies	18,045,388	17,917,922	127,466
State operating subsidies	11,031,454	10,836,000	195,454
Federal operating grants	16,782,724	21,488,596	(4,705,872)
Total subsidies and grants	45,859,566	50,242,518	(4,382,952)
Total revenues, subsidies and grants	$ 61,883,699	$ 66,645,272	$ (4,761,573)

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	$ 16,024,133
Subsidies and grants	45,859,566
	$ 61,883,699

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

Year Ended June 30, 2007

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	$ 36,503,957	$ 38,955,239	$ (2,451,282)
Materials and supplies	11,282,036	11,743,863	(461,827)
Insurance - net of ordinary recoveries	2,450,675	2,499,019	(48,344)
Purchase of transportation services	5,673,287	6,064,475	(391,188)
Contractual services	3,716,817	3,738,119	(21,302)
Utilities	721,895	828,660	(106,765)
Other	922,095	2,815,897	(1,893,802)
Retroactive wage adjustment	1,152,130	-	1,152,130
Total transit activity expenses before depreciation and amortization	$ 62,422,892	$ 66,645,272	$ (4,222,380)

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	$ 62,422,892
Depreciation and amortization	7,253,593
Self insurance net decrease in net assets	338,573
	$ 70,015,058

Transportation District Commission of Hampton Roads

Schedule of Cumulative Capital Grant Project Costs

Year Ended June 30, 2007

Grant ID	Description	Year	Entity	Total Budgeted Grant Award	Total Project Costs to Date	Total Balance Available
47003-21	Regional TDM Program Traffix	2007	TDCHR	$ 560,194	$ 560,194	$ -
47005-22	Regional TDM Program Traffix	2006	TDCHR	1,900,000	1,258,433	641,567
47007-01	Regional TDM Program Traffix	2007	TDCHR	439,806	439,806	-
VA 03-0061	Virginia Beach Multimodal Facility	1997	TTDC	1,240,625	792,024	448,601
VA 03-0075	Ferry Docking Facility	2000	TDCHR	4,255,936	4,170,100	85,836
VA 03-0082	Regional Bus Plan	2002	TDCHR	16,730,015	6,066,262	10,663,753
VA 03-0107	Light Rail Transit Project	2006	TDCHR	2,480,000	2,480,000	-
VA 15-X001	Light Rail Transit Project	2006	TDCHR	1,000,000	994,194	5,806
VA 03-0093	Fixed Guideway Grant	2004	TDCHR	2,350,000	1,752,998	597,002
VA 03-0110	Fixed Guideway Grant	2006	TDCHR	3,945,282	1,882,782	2,062,500
VA 05-0037	Fixed Guideway Grant	2006	TDCHR	1,613,104	227,341	1,385,763
VA 05-0039	Fixed Guideway Grant	2007	TDCHR	1,788,230	8,889	1,779,341
VA 37-X014	Process Development	2007	TDCHR	126,830	27,513	99,317
VA 57-X001	Process Development	2007	TDCHR	73,036	16,260	56,776
VA 90-X144	Capital Assistance	1996	PTDC	3,296,335	3,180,902	115,433
VA 90-X155	Capital Assistance	1997	PTDC	5,109,358	5,109,358	-
VA 90-X156	Capital Assistance	1998	TDCHR	7,771,250	7,771,250	-
VA 90-X167	Capital Assistance	1999	TDCHR	4,873,389	4,873,389	-
VA 90-X189	Capital Assistance	2000	TDCHR	25,433,505	25,227,005	206,500
VA 90-X206	Capital Assistance	2001	TDCHR	34,110,818	33,963,920	146,898
VA 90-X214	Capital Assistance	2002	TDCHR	30,788,323	30,259,359	528,964
VA 90-X228	Capital Assistance	2003	TDCHR	29,888,787	27,072,508	2,816,279
VA 90-X239	Capital Assistance	2004	TDCHR	5,453,200	5,368,816	84,384
VA 90-X259	Capital Assistance	2005	TDCHR	18,180,588	18,055,590	124,998
VA 90-X262	Capital Assistance	2006	TDCHR	8,906,039	4,192,269	4,713,770
VA 90-X282	Capital Assistance	2006	TDCHR	25,118,316	13,744,334	11,373,982
VA 90-X304	Capital Assistance	2007	TDCHR	19,223,010	15,328,920	3,894,090
VA 90-X294	Light Rail Transit Project	2007	TDCHR	2,057,500	2,009,329	48,171
VA 90-X295	Light Rail Transit Project	2007	TDCHR	2,942,500	1,732,195	1,210,305
VA 95-X001	Norfolk MOS	2007	TDCHR	10,000,000	1,408,729	8,591,271
				$ 271,655,976	$ 219,974,669	$ 51,681,307

Transportation District Commission of Hampton Roads

Compliance Section

Year Ended June 30, 2007

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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, 2007, and have issued our report thereon dated December 5, 2007. 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.

701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

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 management of the Commission in a separate letter dated December 5, 2007.

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
December 5, 2007

& COMPANY

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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, 2007. 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, 2007.

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.

701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

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
December 5, 2007

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number				Federal Catalogue Number		Total Expenditures
Department of Transportation						
Direct Payments						
Federal Transit Administration Capital Improvements Grants:						
VA 03-0082	Regional Bus Plan	TDCHR	2002	20.500	*	$ 2,432,155
VA 03-0093	Fixed Guideway Grant	TDCHR	2005	20.500	*	43,359
VA 03-0107	Light Rail Transit Project	TDCHR	2007	20.500	*	1,984,000
VA 03-0110	Fixed Guideway Grant	TDCHR	2006	20.500	*	546,226
VA 05-0037	Fixed Guideway Grant	TDCHR	2007	20.500	*	181,873
VA 05-0039	Fixed Guideway Grant	TDCHR	2007	20.500	*	7,111
VA 15-X001	Light Rail Transit Project	TDCHR	2006	20.500	*	68,804
VA 37-X014	Process Development	TDCHR	2007	20.500	*	27,513
VA 57-X001	Process Development	TDCHR	2007	20.500	*	16,259
VA 90-X189	Capital Assistance	TDCHR	2000	20.500	*	44,202
VA 90-X206	Capital Assistance	TDCHR	2001	20.500	*	10,133
VA 90-X214	Capital Assistance	TDCHR	2002	20.500	*	981,537
VA 90-X156	Capital Assistance	TDCHR	2004	20.500	*	244,200
VA 90-X144	Capital Assistance	TDCHR	2005	20.500	*	26,646
VA 90-X167	Capital Assistance	TDCHR	2005	20.500	*	5,398
VA 90-X228	Capital Assistance	TDCHR	2003	20.500	*	51,725
VA 90-X239	Capital Assistance	TDCHR	2004	20.500	*	414,962
VA 90-X259	Capital Assistance	TDCHR	2005	20.500	*	52,255
VA 90-X262	Capital Assistance	TDCHR	2006	20.500	*	1,504,898
VA 90-X282	Capital Assistance	TDCHR	2006	20.500	*	595,680
VA 90-X304	Capital Assistance	TDCHR	2007	20.500	*	12,263,136
VA 90-X294	Light Rail Transit Project	TDCHR	2007	20.500	*	1,607,463
VA 90-X295	Light Rail Transit Project	TDCHR	2007	20.500	*	1,385,756
VA 95-X001	Norfolk MOS	TDCHR	2007	20.500	*	1,126,983
Total all capital improvement grants						25,622,274
Passed through from Department of Rail and Public Transportation						
47007-01 Regional TDM program Traffix		TDCHR	2007	20.507	*	439,806
47005-22 Regional TDM program Traffix		TDCHR	2007	20.507	*	120,591
47003-21 Regional TDM program Traffix		TDCHR	2007	20.507	*	560,195
Passed through from Southeastern Virginia Planning District Commission						
Federal Transit Administration Technical Studies Grants:	Section 8 Grant			20.507	*	235,110
Total Department of Transportation						$ 26,977,976

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

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2007

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, 2007

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 $809,339.

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.