Consolidated Financial Statements
Years Ended
June 30, 2008 and 2007

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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Grace R. Routten, Vice Chairman

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Homer Carter, Jr. .... *Senior Vice President for Bus and Rail Operations*
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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*
Reginald Jackson .... *Revenue Services Manager*
David L. Stoepker .... *Director of Risk Management*

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, 2008 and 2007, 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, 2008 and 2007, 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 10, 2008, 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 for 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 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 L.L.P.

Newport News, Virginia
December 10, 2008

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, 2008. 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 2008.

- The increase in net assets for 2008 was $35.6 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 $16.3 million were 2.11% or approximately $340,000 greater than fiscal year 2007, primarily due to increased passenger revenue.
- Operating expenses of $66.1 million (net of depreciation and amortization) were 5.40% or approximately $3.4 million greater than fiscal year 2007, primarily due to increased personnel and fringe benefit costs.
- Subsidies and grants of $50.4 million were 9.89% or approximately $4.5 million greater than fiscal year 2007.
- At the end of the fiscal year, unrestricted net assets were $1,949,808, a decrease of $327,498 and Commission designated funds for self insurance increased by $62,872 to $(1,437,514).

Summary of Operations and Changes in Net Assets

	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006
Operating revenues	$ 16,363,530	$ 16,024,133	$ 15,668,426
Operating expenses	76,263,340	70,015,058	70,531,890
Operating loss before subsidies and grants	(59,899,810)	(53,990,925)	(54,863,464)
Subsidies and grants	50,394,765	45,859,566	43,951,262
Operating loss before other income (expenses)	(9,505,045)	(8,131,359)	(10,912,202)
Other income (expenses)	(9,933,106)	(10,741,392)	(6,883,632)
Loss before proceeds from capital grants	(19,438,151)	(18,872,751)	(17,795,834)
Proceeds from capital grants	55,013,712	15,020,925	9,556,240
Change in net assets	$ 35,575,561	$ (3,851,826)	$ (8,239,594)

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 $75.6 million at June 30, 2008.

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

	June 30, 2008	June 30, 2007	June 30, 2006
Assets			
Current assets	$ 28,698,416	$ 16,649,591	$ 22,157,290
Capital assets - net	91,964,663	51,730,807	42,380,359
Other assets	5,258	6,047,056	12,770,000
Total assets	120,668,337	74,427,454	77,307,649
Liabilities			
Current liabilities	29,675,226	17,629,904	20,693,273
Long-term liabilities	15,425,000	16,805,000	12,770,000
Total liabilities	45,100,226	34,434,904	33,463,273
Net Assets			
Invested in capital assets	75,055,817	39,215,630	42,380,359
Unrestricted	1,949,808	2,277,306	2,625,830
Commission designated for self-insurance	(1,437,514)	(1,500,386)	(1,161,813)
Total net assets	$ 75,568,111	$ 39,992,550	$ 43,844,376

The largest portion of the Commission's net assets each period (99% at June 30, 2008), 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:

	2008 Amount	Percent of Total	**2007** Amount	Percent of Total	**2006** Amount	Percent of Total
Operating						
Passenger fares	$ 15,671,379	93.1%	$ 15,389,194	91.4%	$ 14,851,755	93.5%
Charters and contracts	48,872	0.2%	69,046	0.4%	104,876	0.6%
Vanpool rentals	144,734	0.8%	129,519	0.8%	116,131	0.7%
Auxiliary	370,495	2.2%	315,411	1.9%	441,190	2.8%
Nontransportation	128,050	0.8%	120,963	0.7%	154,474	1.0%
Total operating	16,363,530	97.1%	16,024,133	95.2%	15,668,426	98.6%
Nonoperating						
Gain on sale of capital assets	83,910	0.5%	40,367	0.2%	81,715	0.5%
Interest income	406,255	2.4%	759,618	4.6%	135,623	0.9%
Total nonoperating	490,165	2.9%	799,985	4.8%	217,338	1.4%
Total revenues	$ 16,853,695	100.00%	$ 16,824,118	100.00%	$ 15,885,764	100.00%

Expenses

A summary of expenses is as follows:

	2008 Amount	Percent of Total	2007 Amount	Percent of Total	2006 Amount	Percent of Total
Operating						
Labor	$ 26,477,853	30.5%	$ 24,437,028	30.0%	$ 23,577,151	30.4%
Fringe benefits	13,197,440	15.2%	12,066,929	14.8%	11,536,164	14.9%
Depreciation and amortization	10,153,014	11.7%	7,253,593	8.9%	9,125,980	11.8%
Materials and supplies	11,790,604	13.6%	11,282,036	13.8%	10,865,827	14.0%
Insurance - net of ordinary recoveries	2,989,774	3.5%	2,789,248	3.4%	3,459,879	4.5%
Purchase of transportation services	5,981,429	6.9%	5,673,287	7.0%	5,718,726	7.4%
Contractual services	3,377,753	3.9%	3,716,817	4.6%	3,377,825	4.4%
Utilities	720,958	0.9%	721,895	0.9%	809,020	1.0%
Other	1,574,515	1.8%	922,095	1.1%	1,043,342	1.3%
Retroactive wage adjustment	-	-	1,152,130	1.4%	1,017,976	1.3%
Total operating	76,263,340	88.0%	70,015,058	85.8%	70,531,890	90.9%
Nonoperating						
Interest expense	846,964	1.0%	809,095	1.0%	129,102	0.2%
Noncapitalized grant expenditures	9,576,307	11.0%	10,732,282	13.2%	6,971,868	9.0%
Total nonoperating	10,423,271	12.0%	11,541,377	14.2%	7,100,970	9.1%
Total expenses	$ 86,686,611	100.0%	$ 81,556,435	100.0%	$ 77,632,860	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, 2008	**Year Ended June 30, 2007**	**Year Ended June 30, 2006**
Cash flows from operating activities	$ (43,016,167)	$ (42,628,335)	$ (42,928,468)
Cash flows from noncapital financing activities	56,347,469	46,770,284	43,463,375
Cash flows from capital and related financing activities	(18,289,229)	(9,507,392)	12,706,458
Cash flows from investing activities	6,448,053	7,482,562	(12,634,377)
Net change in cash and cash equivalents	1,490,126	2,117,119	606,988
Cash and cash equivalents - beginning of period	5,263,029	3,145,910	2,538,922
Cash and cash equivalents - end of period	$ 6,753,155	$ 5,263,029	$ 3,145,910

The Commission's available cash and cash equivalents increased from \$5.3 million at the end of 2007 to \$6.8 million at the end of 2008.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2008, the Commission expended \$50.4 million on capital activities from grant funds. This amount included \$22.4 million for the light rail transportation project, \$21.4 million for buses, \$2.0 million for communications equipment, \$1.2 million for fare box equipment, \$1.6 million for paratransit and service vans and \$1.8 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, 2008, the Commission owed \$6,000,000 against its \$13,000,000 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, 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, 2008, the Commission owed \$16,805,000 on these bonds, with \$1,380,000 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 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,	**2008**	**2007**
Assets		
Current assets		
Cash and cash equivalents	$ 6,753,155	$ 5,263,029
Due from governments	19,071,932	8,173,973
Due from cities	-	218,044
Accounts receivable	395,791	521,201
Inventories	2,351,686	2,313,934
Prepaid expenses	125,852	159,410
Total current assets	28,698,416	16,649,591
Capital assets - net of accumulated depreciation	91,860,817	51,650,294
Intangible assets - net	103,846	80,513
Restricted investments	5,258	6,047,056
	$120,668,337	$ 74,427,454
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	$ 6,000,000	$ 1,500,000
Current portion of long-term debt	1,380,000	940,000
Acounts payable	14,181,713	5,536,360
Accrued expenses	2,673,850	4,698,659
Self-insurance liability	2,950,850	2,961,981
Prepaid local subsidies	730,515	-
Advanced capital contributions	1,758,298	1,992,904
Total current liabilities	29,675,226	17,629,904
Long-term debt	15,425,000	16,805,000
Total liabilities	45,100,226	34,434,904
Net assets		
Investment in capital assets	75,055,817	39,215,630
Unrestricted	1,949,808	2,277,306
Commission designated for self-insurance liability	(1,437,514)	(1,500,386)
Total net assets	75,568,111	39,992,550
	$120,668,337	$ 74,427,454

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,	2008	2007
Operating revenues		
Passenger fares	$ 15,671,379	$ 15,389,194
Charters and contracts	48,872	69,046
Vanpool rentals	144,734	129,519
Auxiliary	370,495	315,411
Nontransportation	128,050	120,963
	16,363,530	16,024,133
Operating expenses		
Labor	26,477,853	24,437,028
Fringe benefits	13,197,440	12,066,929
Depreciation and amortization	10,153,014	7,253,593
Materials and supplies	11,790,604	11,282,036
Purchase of transportation services	5,981,429	5,673,287
Contractual services	3,377,753	3,716,817
Insurance - net of ordinary recoveries	2,989,774	2,789,248
Other	1,574,515	922,095
Utilities	720,958	721,895
Retroactive wage adjustment	-	1,152,130
	76,263,340	70,015,058
Operating loss before subsidies and grants	(59,899,810)	(53,990,925)
Subsidies and grants	50,394,765	45,859,566
Operating loss before other income (expenses)	(9,505,045)	(8,131,359)
Other income (expenses)		
Interest income	406,255	759,618
Interest expense	(846,964)	(809,095)
Gain on sale of capital assets	83,910	40,367
Noncapitalized grant expenditures	(9,576,307)	(10,732,282)
	(9,933,106)	(10,741,392)
Loss before proceeds from capital grants	(19,438,151)	(18,872,751)
Proceeds from capital grants	55,013,712	15,020,925
Changes in net assets	35,575,561	(3,851,826)
Net assets - beginning of year	39,992,550	43,844,376
Net assets - end of year	$ 75,568,111	$ 39,992,550

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,	2008	2007
Cash flows from operating activities		
Receipts from customers and users	$ 16,488,940	$ 16,034,776
Payments to suppliers for goods and services	(17,805,005)	(22,573,684)
Payments to employees	(41,700,102)	(36,089,427)
Net cash from operating activities	(43,016,167)	(42,628,335)
Cash flows from noncapital financing activities		
Operating subsidies and grants received	51,847,469	55,370,284
Increase (decrease) in note payable - bank	4,500,000	(8,600,000)
Net cash from noncapital financing activities	56,347,469	46,770,284
Cash flows from capital and related financing activities		
(Decrease) increase in advanced capital contributions	(234,607)	577,406
Interest expense	(846,964)	(809,095)
Acquisition of capital assets and intangible assets	(50,363,536)	(16,523,528)
Noncapitalized grant expenditures	(9,576,307)	(10,732,282)
Proceeds from disposition of capital assets	83,910	40,367
Proceeds from capital grants	43,611,608	13,045,253
Increase in intangible assets	(23,333)	(80,513)
Proceeds from long-term debt	-	4,975,000
Payments on long-term debt	(940,000)	-
Net cash from capital and related financing activities	(18,289,229)	(9,507,392)
Cash flows from investing activities		
Interest income	406,255	759,618
Decrease in restricted investments	6,041,798	6,722,944
Net cash from investing activities	6,448,053	7,482,562
Net change in cash and cash equivalents	1,490,126	2,117,119
Cash and cash equivalents - beginning of year	5,263,029	3,145,910
Cash and cash equivalents - end of year	$ 6,753,155	$ 5,263,029

Consolidated Statements of Cash Flows

Years Ended June 30,	2008	2007
Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$(59,899,810)	$(53,990,925)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	10,153,014	7,253,593
Change in:		
Accounts receivable	125,410	10,643
Inventories	(37,751)	31,510
Prepaid expenses	33,559	(66,922)
Accounts payable	8,645,352	2,701,217
Accrued expenses	(2,024,809)	1,652,353
Self-insurance liability	(11,132)	(219,804)
Net cash from operating activities	$(43,016,167)	$(42,628,335)

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 2008 and 2007, $1,030,125 and $458,334, respectively, of advertising costs were charged to operations.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2008 and 2007, the carrying value of the Commission's deposits with banks was $4,179,391 and $2,306,812, respectively, and the bank balance totaled $5,658,958 and $3,088,749, 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, 2008 and 2007, the Commission had $2,203,676 and $2,601,677, 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, 2008 and 2007, 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*
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	
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	

* *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:

		2008		2007
Federal Transit Administration	$	7,665,520	$	5,359,659
Commonwealth of Virginia		11,406,412		2,814,314
	$	19,071,932	$	8,173,973

5. Inventories

Inventories consisted of the following:

		2008		2007
Bus and service vehicle parts	$	2,079,074	$	2,071,481
Fuel and oil		272,612		242,453
	$	2,351,686	$	2,313,934

6. Capital Assets

A summary of changes in capital assets follows:

	Balance June 30, 2007	Increases	Decreases	**Balance June 30, 2008**
Capital assets not being depreciated				
Land	$ 2,077,496	$ 476,390	$ -	$ 2,553,886
Construction in process:				
Light rail cars	-	9,257,104	-	9,257,104
Light rail infrastructure	-	13,120,713	-	13,120,713
	2,077,496	22,854,207	-	24,931,703
Capital assets being depreciated				
Buses	92,358,209	21,369,370	(3,479,152)	110,248,427
Buildings and improvements	31,372,502	442,947	-	31,815,449
Para transit & service vans	7,479,531	1,620,115	(1,354,807)	7,744,839
Pedestrian ferries and docks	5,776,447	149,867	-	5,926,314
Fare collection equipment	7,690,238	1,401,254	-	9,091,492
Shop and garage equipment	4,680,275	-	(4,005)	4,676,270
Radio and communications equipment	6,697,098	2,036,906	(416)	8,733,587
Management information system	3,588,006	309,738	(1,277)	3,896,467
Furniture and office equipment	1,995,067	13,535	(77)	2,008,525
Bus shelters and signs	2,370,918	108,838	-	2,479,756
Service vehicles	509,247	40,866	-	550,113
Supervisory vehicles	536,674	15,896	-	552,569
	165,054,212	27,509,332	(4,839,734)	187,723,808
Less - accumulated depreciation	(115,481,414)	(10,153,014)	4,839,734	(120,794,694)
	49,572,798	17,356,318	-	66,929,114
	$ 51,650,294	$ 40,210,525	$ -	$ 91,860,817

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 2008 and 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:

	2008	2007
City of Chesapeake	$ (103,899)	$ 40
City of Hampton	204,406	121,309
City of Newport News	209,825	528,176
City of Norfolk	170	240,146
City of Portsmouth	483,596	322,107
City of Suffolk	25,813	13,774
City of Virginia Beach	(89,396)	726,510
	730,515	1,952,062
Less - unallocated retroactive wage payments	-	(2,170,106)
	$ 730,515	$ (218,044)

9. Note Payable - Bank

The Commission has a revolving line of credit of $13,000,000, which matures December 31, 2008. Advances on the line of credit were collateralized by the pledging of all revenues, federal grants and nonfederal operating subsidies of the Commission. Interest on advances is payable monthly at 78% of the London Interbank Offered Rate (LIBOR) plus 75 basis points (2.67% and 4.90% at June 30, 2008 and 2007, respectively). As of June 30, 2008 and 2007, the Commission owed $6,000,000 and $1,500,000, respectively, against the line of credit.

10. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	July 1, 2007	Increases	Decreases	June 30, 2008	Amounts Due Within One Year
Virginia Resources Authority	$ 17,745,000	$ -	$ (940,000)	$ 16,805,000	$ 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
2009	$ 1,380,000	$ 694,087
2010	1,430,000	639,790
2011	1,490,000	581,570
2012	1,560,000	514,730
2013	1,630,000	441,105
2014-2018	9,315,000	1,014,056
	$ 16,805,000	$ 3,885,338

11. Subsidies and Grants

Subsidies and grants for operating purposes were as follows:

	2008	2007
Federal	$ 18,792,070	$ 16,782,724
State	11,257,053	11,031,454
Local	20,345,642	18,045,388
	$ 50,394,765	$ 45,859,566

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, 2008 and 2007, contributions received exceed amounts expended from local governments by $1,758,298 and $1,992,904, 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, 2008 and 2007, was 2.28%.

c) Annual Required Contribution (ARC)

For the years ended June 30, 2008 and 2007, the Commission's actual contribution of $167,313 and $142,984, 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, 2008	$ 167,313	100%	$-0-
Year ended June 30, 2007	$ 142,984	100%	$-0-
Year ended June 30, 2006	$ 55,962	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, 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%
June 30, 2005	$ 14,322,420	$ 11,979,070	$ 2,343,350	119.6%	$ 5,200,184	45.1%

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, 2007
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, 2008 and 2007, the Commission's actual contribution was $1,278,766 and $1,147,855, respectively. The required contribution was determined as part of the December 31, 2007, 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, 2007	$ 848,497	123%	$ (200,660)
December 31, 2006	$ 925,716	119%	$ (175,886)
December 31, 2005	$ 1,028,060	112%	$ (123,367)

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, 2007	$	25,019,440	$	30,172,362	$	(5,152,922)	82.92%	$	12,653,453	(40.72%)
December 31, 2006	$	23,440,993	$	28,741,711	$	(5,300,778)	81.56%	$	10,514,208	(50.42%)
December 31, 2005	$	21,832,311	$	27,334,991	$	(5,502,680)	79.87%	$	11,061,738	(49.75%)

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, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	10 Years from January 1, 2008, 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, 2008 and 2007, the Commission's actual contributions to the plan were $469,800 and $379,639, respectively. The annual required contribution for the current year was determined as part of the July 1, 2007, 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, 2008	$	324,549	124%	$	(77,892)
June 30, 2007	$	378,464	100%	$	29,370
June 30, 2006	$	422,018	94%	$	26,376

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, 2007	$ 15,364,868	$ 13,257,411	$ 2,107,457	116%	$ 6,693,773	31%
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%

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, 2007
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, 2008 and 2007, totaled $60,452 and $61,918, 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, 2008 and 2007, the Commission has accrued $642,419 and $543,345, 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 9, 2008, cost estimates for the light rail project will approximate $288 million. The additional funding will consist of an additional $35 million of state funds and $21 million in City of Norfolk funds.

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Transportation District Commission of Hampton Roads

Supplementary Information

Year Ended June 30, 2008

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

Year Ended June 30, 2008

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	$ 15,671,379	$ 16,015,908	$ (344,529)
Charters and contracts	48,872	-	48,872
Vanpool rentals	144,734	102,075	42,659
Auxiliary	370,495	375,504	(5,009)
Nontransportation	128,050	350,004	(221,954)
Total revenues	16,363,530	16,843,491	(479,961)
Subsidies and grants			
Municipal subsidies	20,345,642	22,425,832	(2,080,190)
State operating subsidies	11,257,053	10,892,440	364,613
Federal operating grants	18,792,070	21,860,162	(3,068,092)
Total subsidies and grants	50,394,765	55,178,434	(4,783,669)
Total revenues, subsidies and grants	$ 66,758,295	$ 72,021,925	$ (5,263,630)

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	$ 16,363,530
Subsidies and grants	50,394,765
	$ 66,758,295

Transportation District Commission of Hampton Roads

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

Year Ended June 30, 2008

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor and fringe benefits	$ 39,675,293	$ 43,983,179	$ (4,307,886)
Materials and supplies	11,790,604	12,429,904	(639,300)
Insurance - net of ordinary recoveries	3,052,646	3,233,519	(180,873)
Purchase of transportation services	5,981,429	6,381,729	(400,300)
Contractual services	3,377,753	3,907,029	(529,276)
Utilities	720,958	867,189	(146,231)
Other	1,574,515	1,219,366	355,149
Total transit activity expenses before depreciation and amortization	$ 66,173,198	$ 72,021,915	$ (5,848,717)

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	$ 66,173,198
Depreciation and amortization	10,153,014
Self insurance net decrease in net assets	(62,872)
	$ 76,263,340

Transportation District Commission of Hampton Roads

Schedule of Cumulative Capital Grant Project Costs

Year Ended June 30, 2008

Grant ID	Description	Year	Entity	Total Budgeted Grant Award	Total Project Costs to Date	Total Balance Available
47005-21	Regional TDM Program Traffix	2006	TDCHR	$ 1,900,000	$ 1,497,402	$ 402,598
47007-03	Transit Demand Management	2007	TDCHR	1,100,000	1,100,000	-
47008-01	Transit Demand Management	2008	TDCHR	1,100,000	167,772	932,228
47008-03	Naval Station Shuttle	2008	TDCHR	513,000	58,955	454,045
72507-48	Regional Bus Plan	2007	TDCHR	1,098,000	1,009,704	88,296
72507-50	Regional Bus Plan	2006	TDCHR	240,500	217,720	22,780
73005-24	Light Rail Transit Project	2005	TDCHR	923,499	342,203	581,296
73008-11	Regional Bus Plan	2008	TDCHR	6,100,000	4,983,032	1,116,968
73008-25	Light Rail Transit Project	2008	TDCHR	10,000,000	246,856	9,753,144
73099-17	Light Rail Transit Project	1999	TDCHR	2,590,474	2,590,474	-
VA 03-0061	Virginia Beach Multimodal Facility	1997	TTDC	1,240,625	980,097	260,528
VA 03-0075	Ferry Docking Facility	2000	TDCHR	4,255,936	4,260,404	(4,468)
VA 03-0082	Regional Bus Plan	2002	TDCHR	16,730,015	9,165,373	7,564,642
VA 03-0107	Light Rail Transit Project	2006	TDCHR	75,738,057	17,679,766	58,058,291
VA 15-X001	Light Rail Transit Project	2006	TDCHR	1,000,000	994,516	5,484
VA 03-0093	Fixed Guideway Grant	2004	TDCHR	2,350,000	2,350,000	-
VA 03-0110	Fixed Guideway Grant	2006	TDCHR	3,945,282	2,929,934	1,015,348
VA 05-0037	Fixed Guideway Grant	2006	TDCHR	1,613,104	1,427,133	185,971
VA 05-0039	Fixed Guideway Grant	2007	TDCHR	1,788,230	217,245	1,570,985
VA 37-X014	Process Development	2007	TDCHR	126,830	75,476	51,354
VA 57-X001	Process Development	2007	TDCHR	73,036	58,401	14,635
VA 90-X144	Capital Assistance	1996	PTDC	3,296,335	3,293,221	3,114
VA 90-X189	Capital Assistance	2000	TDCHR	25,433,505	25,229,572	203,933
VA 90-X206	Capital Assistance	2001	TDCHR	34,110,818	34,021,420	89,398
VA 90-X214	Capital Assistance	2002	TDCHR	30,788,323	30,358,700	429,623
VA 90-X228	Capital Assistance	2003	TDCHR	29,888,787	27,181,738	2,707,049
VA 90-X239	Capital Assistance	2004	TDCHR	5,453,200	5,402,840	50,360
VA 90-X259	Capital Assistance	2005	TDCHR	18,180,588	18,145,791	34,797
VA 90-X262	Capital Assistance	2006	TDCHR	8,906,039	5,610,395	3,295,644
VA 90-X282	Capital Assistance	2006	TDCHR	25,118,316	24,322,340	795,976
VA 90-X294	Light Rail Transit Project	2007	TDCHR	2,057,500	2,044,945	12,555
VA 90-X295	Light Rail Transit Project	2007	TDCHR	2,942,500	1,732,195	1,210,305
VA 90-X304	Capital Assistance	2007	TDCHR	19,223,010	16,164,137	3,058,873
VA 90-X320	Capital Assistance	2008	TDCHR	17,082,896	12,716,113	4,366,783
VA 95-X001	Light Rail Transit Project	2007	TDCHR	12,990,669	10,598,269	2,392,400
VA 95-X014	Rapid Express Buses	2008	TDCHR	6,099,363	4,188,794	1,910,569
				$ 375,998,437	$ 273,362,933	$ 102,635,504

Transportation District Commission of Hampton Roads

Compliance Section

Year Ended June 30, 2008

Goodman & COMPANY
Certified Public Accountants
Specialized Services
Business Solutions

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, 2008, and have issued our report thereon dated December 10, 2008. 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 management of the Commission in a separate letter dated December 10, 2008.

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 10, 2008

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, 2008. 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, 2008.

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.

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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 10, 2008

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Entity	Year	Federal Catalogue Number		Total Expenditures
Department of Transportation						
Direct Payments						
Federal Transit Administration Capital Improvements Grants:						
VA 03-0061	Virginia Beach Multimodal Facility	TDCHR	1997	20.500	*	$ 150,457
VA 03-0075	Ferry Docking Facility	TDCHR	2000	20.500	*	72,243
VA 03-0082	Regional Bus Plan	TDCHR	2002	20.500	*	2,444,199
VA 03-0093	Fixed Guideway Grant	TDCHR	2005	20.500	*	477,602
VA 03-0107	Light Rail Transit Project	TDCHR	2007	20.500	*	15,695,766
VA 03-0110	Fixed Guideway Grant	TDCHR	2006	20.500	*	837,722
VA 05-0037	Fixed Guideway Grant	TDCHR	2007	20.500	*	959,833
VA 05-0039	Fixed Guideway Grant	TDCHR	2007	20.500	*	166,684
VA 15-X001	Light Rail Transit Project	TDCHR	2006	20.500	*	318
VA 37-X014	Process Development	TDCHR	2007	20.500	*	47,963
VA 57-X001	Process Development	TDCHR	2007	20.500	*	42,141
VA 90-X189	Capital Assistance	TDCHR	2000	20.500	*	2,053
VA 90-X206	Capital Assistance	TDCHR	2001	20.500	*	46,000
VA 90-X214	Capital Assistance	TDCHR	2002	20.500	*	79,472
VA 90-X144	Capital Assistance	TDCHR	2005	20.500	*	89,854
VA 90-X155	Capital Assistance	PDTC	1997	20.500	*	9,154
VA 90-X228	Capital Assistance	TDCHR	2003	20.500	*	87,384
VA 90-X239	Capital Assistance	TDCHR	2004	20.500	*	27,218
VA 90-X259	Capital Assistance	TDCHR	2005	20.500	*	72,161
VA 90-X262	Capital Assistance	TDCHR	2006	20.500	*	1,134,501
VA 90-X282	Capital Assistance	TDCHR	2006	20.500	*	8,462,404
VA 90-X304	Capital Assistance	TDCHR	2007	20.500	*	668,173
VA 90-X294	Light Rail Transit Project	TDCHR	2007	20.500	*	28,493
VA 95-X001	Norfolk MOS	TDCHR	2007	20.500	*	7,351,632
VA 90-X014	Capital Assistance	TDCHR	2007	20.500	*	4,188,794
VA 90-X320	Capital Assistance	TDCHR	2008	20.500	*	12,753,666
Total all capital improvement grants						55,895,887
Passed through from Department of Rail and Public Transportation						
47005-22 Regional TDM program Traffix		TDCHR	2007	20.507	*	238,968
47008-01 Regional TDM program Traffix		TDCHR	2008	20.507	*	167,772
Passed through from Southeastern Virginia Planning District Commission						
Federal Transit Administration Technical Studies Grant and Section 8 Grant				20.507	*	221,820
Total Department of Transportation						$ 56,524,447

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

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2008

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, 2008

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 $1,695,733.

   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.