Consolidated Financial Statements
Nine Months Ended
June 30, 2005

Hampton Roads Transit

Transportation District Commission of Hampton Roads

Goodman & COMPANY
Certified Public Accountants
Financial Planning
Specialized Services

Transportation District Commission of Hampton Roads

Commissioners

William F. Haskins, Jr., Chairman
W. Joe Newman, Vice Chairman

Charles C. Allen
Charles M. Badger
Charles F. Brown
James W. Holley, III
Curtis R. Milteer, Sr.
Delegate G. Glenn Oder
Paul R. Riddick
Grace G. Routten
Turner M. Spencer
Senator Frank W. Wagner
Charles B. Whitehurst
Patricia P. Willis
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*
Thomas E. Glascock .... *Deputy General Counsel*

Finance Staff

Barry O. Herring .... *Chief Accounting Officer*
Hien B. Hoang .... *Director of Accounting*
Keisha L. Branch .... *Chief Grants and Budget Officer*
Dan W. Petkunas .... *Procurement Manager*
Catherine D. Young .... *Revenue Services Manager*

Transportation District Commission
of Hampton Roads

Table of Contents

Goodman
& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

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 (Commission), as of and for the nine months ended June 30, 2005, as listed in the table of contents. These consolidated financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 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 audit provides 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, 2005, and the consolidated results of their operations and their cash flows for the nine months 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 October 7, 2005, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 the Governmental Accounting Standards Board. 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.

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

Our audit was 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 audit 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
October 7, 2005

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 nine months ended June 30, 2005. 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 here 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 to June 30 to coincide with the fiscal year end of its participating localities. As a result, management determined a better reflection of current period operations would be a discussion of actual versus budgeted amounts for the nine months ended June 30, 2005, rather than a comparison to the previous fiscal year.

- The decrease in net assets for 2005 was $8.5 million. Of this amount, $7.7 million of the decrease was attributable to capital assets being reduced by over $9.5 million in depreciation, while only $1.8 million were acquired.
- Operating revenues of $12.7 million compared to budgeted operating revenues of $13.5 million were 6.01% or approximately $814,000 below budget.
- Operating expenses of $42.1 million (net of depreciation) compared to budgeted operating expenses of $42.4 million were .59% or approximately $250,000 less than budget.
- Subsidies and grants of $29.3 million compared to budget of $29.0 million were 1.11% or approximately $300,000 greater than budget.
- At the end of the fiscal year, unrestricted net assets was $2,609,307, a reduction of approximately $267,000, and Commission designated funds for self insurance decreased by $515,654 to $214,699.
- Due to the timing of government receivables, the Commission had borrowed $9,000,000 against its revolving line of credit to fund operations.

Summary of Operations and Changes in Net Assets

	Nine months ended June 30, 2005	Year ended September 30, 2004	Year ended September 30, 2003
Operating revenues	$ 12,656,716	$ 17,371,094	$ 16,974,851
Operating expenses	52,240,736	62,586,646	58,314,417
Operating loss before subsidies and grants	(39,584,020)	(45,215,552)	(41,339,566)
Subsidies and grants	29,289,271	34,611,049	31,865,670
Operating loss before other expenses	(10,294,749)	(10,604,503)	(9,473,896)
Other expenses	(4,036,545)	(10,069,756)	(13,593,891)
Loss before proceeds from capital grants	(14,331,294)	(20,674,259)	(23,067,787)
Proceeds from capital grants	5,878,730	19,363,056	25,119,172
Change in net assets	$ (8,452,564)	$ (1,311,203)	$ 2,051,385

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 $52.1 million at June 30, 2005.

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

	June 30, 2005	September 30, 2004	September 30, 2003
Assets			
Current assets	$ 20,701,999	$ 17,142,646	$ 18,958,160
Capital assets - net and other assets	49,259,964	56,929,791	57,307,778
Total assets	69,961,963	74,072,437	76,265,938
Liabilities			
Current liabilities	17,877,993	13,535,903	14,418,201
Total liabilities	17,877,993	13,535,903	14,418,201
Net assets			
Invested in capital assets	49,259,964	56,929,791	57,307,778
Commission designated for self-insurance	214,699	730,353	1,213,107
Unrestricted	2,609,307	2,876,390	3,326,852
Total net assets	$ 52,083,970	$ 60,536,534	$ 61,847,737

The largest portion of the Commission's net assets each period (95% at June 30, 2005) 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 nine months ended June 30, 2005 and year ended September 30, 2004, is as follows:

	2005 Amount	Percent of Total	2004 Amount	Percent of Total
Operating				
Passenger fares	$ 10,989,655	86.7%	$ 14,444,013	82.4%
Charters and contracts	118,095	0.9%	136,039	0.8%
Vanpool rentals	69,551	0.6%	70,727	0.4%
Auxiliary	429,110	3.4%	746,857	4.3%
Expense reimbursements	956,604	7.5%	1,757,083	10.0%
Nontransportation	93,701	0.7%	216,375	1.2%
Total operating	12,656,716	99.8%	17,371,094	99.1%
Non-operating				
Gain on disposition of property	-	0.0%	5,962	0.0%
Interest income	25,602	0.2%	16,967	0.1%
Working capital contributions	-	0.0%	143,814	0.8%
Total non-operating	25,602	0.2%	166,743	0.9%
Total revenues	$ 12,682,318	100.00%	$ 17,537,837	100.00%

Expenses

A summary of expenses for the nine months ended June 30, 2005 and year ended September 30, 2004, is as follows:

	2005 Amount	Percent of Total	2004 Amount	Percent of Total
Operating				
Labor	$ 17,436,678	31.0%	$ 22,958,653	31.5%
Fringe benefits	8,596,354	15.3%	11,619,606	16.0%
Depreciation and amortization	9,533,434	16.9%	9,560,155	13.1%
Materials and supplies	6,711,999	11.9%	7,460,673	10.2%
Insurance - net of ordinary recoveries	1,886,158	3.4%	1,646,820	2.3%
Purchase of transportation services	4,273,673	7.6%	5,183,534	7.1%
Contractual services	2,407,980	4.3%	2,507,621	3.4%
Utilities	586,301	1.0%	690,117	0.9%
Other	808,159	1.4%	959,467	1.3%
Total operating	52,240,736	92.8%	62,586,646	85.9%
Non-operating				
Interest expense	47,024	0.1%	55,611	0.1%
Non-capitalized grant expenditures	4,015,123	7.1%	10,180,888	14.0%
Total non-operating	4,062,147	7.2%	10,236,499	14.1%
Total expenses	$ 56,302,883	100.0%	$ 72,823,145	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.

	Nine months ended June 30, 2005	**Year ended September 30, 2004**	**Year ended September 30, 2003**
Cash flows from operating activities	$ (33,179,000)	$ (33,929,995)	$ (31,125,308)
Cash flows from noncapital financing activities	21,957,892	34,754,863	31,865,670
Cash flows from capital and related financing activities	9,737,278	(49,649)	(3,084)
Cash flows from investing activities	25,602	16,967	33,016
Net change in cash and cash equivalents	(1,458,228)	792,186	770,294
Cash and cash equivalents - beginning of period	3,997,150	3,204,964	2,434,670
Cash and cash equivalents - end of period	$ 2,538,922	$ 3,997,150	$ 3,204,964

Summary of Cash Flow Activities *(Continued)*

The Commission's available cash and cash equivalents decreased from $4.0 million at the end of 2004 to $2.5 million at the end of 2005 due to the increase in federal receivables for federal grants.

Capital Acquisitions and Construction Activities

During the nine months ended June 30, 2005, the Commission expended $5.9 million on capital activities. This included $1.2 million for the Light Rail Transportation project and other planning, and $1.9 million for capital asset purchases for transportation services.

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, 2005, the Commission had borrowed $9,000,000 against its $10,000,000 revolving line of credit, primarily due to the timing of government receivables.

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, 2005

Assets		
Current assets		
Cash and cash equivalents	$	2,538,922
Due from governments		13,628,067
Due from cities		678,710
Accounts receivable		872,061
Inventories		2,543,940
Prepaid expenses		440,299
Total current assets		20,701,999
Capital assets - net of accumulated depreciation		48,072,893
Other assets - intangible assets - net of accumulated amortization of $5,028,738		1,187,071
	$	69,961,963
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	$	9,000,000
Accounts payable		3,443,613
Accrued expenses		1,749,255
Self-insurance liability		2,203,973
Prepaid local subsidies		114,767
Unearned reimbursements		582,083
Advanced capital contributions		784,302
Total current liabilities		17,877,993
Net assets		
Investment in capital assets		49,259,964
Unrestricted		2,609,307
Commission designated for self-insurance liability		214,699
Total net assets		52,083,970
	$	69,961,963

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Revenue, Expenses and Changes in Net Assets

Nine Months Ended June 30, 2005	
Operating revenues	
Passenger fares	$ 10,989,655
Charters and contracts	118,095
Vanpool rentals	69,551
Auxiliary	429,110
Expense reimbursements	956,604
Nontransportation	93,701
	12,656,716
Operating expenses	
Labor	17,436,678
Fringe benefits	8,596,354
Depreciation and amortization	9,533,434
Materials and supplies	6,711,999
Insurance - net of ordinary recoveries	1,886,158
Purchase of transportation services	4,273,673
Contractual services	2,407,980
Utilities	586,301
Other	808,159
	52,240,736
Operating loss before subsidies and grants	(39,584,020)
Subsidies and grants	29,289,271
Operating loss before other income (expenses)	(10,294,749)
Other income (expenses)	
Interest income	25,602
Interest expense	(47,024)
Non-capitalized grant expenditures	(4,015,123)
	(4,036,545)
Loss before proceeds from capital grants	(14,331,294)
Proceeds from capital grants	5,878,730
Changes in net assets	(8,452,564)
Net assets - beginning of period	60,536,534
Net assets - end of period	$ 52,083,970

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Nine Months Ended June 30, 2005

Cash flows from operating activities	
Receipts from customers and users	$ 12,420,136
Payments to suppliers for goods and services	(19,500,593)
Payments to employees	(26,098,543)
Net cash from operating activities	(33,179,000)
Cash flows from noncapital financing activities	
Operating subsidies and grants received	21,957,892
Increase in note payable - bank	9,000,000
	30,957,892
Cash flows from capital and related financing activities	
Increase in advanced capital contributions	784,302
Interest expense	(47,024)
Acquisition of property and equipment and intangible assets	(1,863,607)
Non-capitalized grant expenditures	(4,015,123)
Proceeds from capital grants	5,878,730
Net cash from capital and related financing activities	737,278
Cash flows from investing activities	
Interest income	25,602
Net change in cash and cash equivalents	(1,458,228)
Cash and cash equivalents - beginning of period	3,997,150
Cash and cash equivalents - end of period	$ 2,538,922

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

Transportation District Commission of Hampton Roads

Consolidated Statements of Cash Flows

Nine Months Ended June 30, 2005

Reconciliation of operating loss before subsidies and grants to net cash from operating activities		
Operating loss before subsidies and grants	$	(39,584,020)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization		9,533,434
Change in:		
Accounts receivable		(236,580)
Inventories		(117,894)
Prepaid expenses		(170,680)
Accounts payable		(2,899,245)
Accrued expenses		(65,511)
Self-insurance liability		361,496
Net cash from operating activities	$	(33,179,000)

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

Fiscal Year Change

During 2005, Commission management changed its fiscal year end to June 30 to coincide with the fiscal year end of its participating localities.

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

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, bank deposits and short-term highly liquid investments with an original 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 ridership;
- 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 2005, $364,213 of advertising costs were charged to operations.

3. Cash and Cash Equivalents and Investments

Deposits

At June 30, 2005, the carrying value of the Commission's deposits with banks was $19,419 and the bank balance totaled $1,497,285. 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 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, 2005, the Commission had $2,196,753 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, 2005, 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, 2005, 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*
Money market funds - Virginia LGIP	$ 322,750	-
Other money market funds	2,196,753	-
Total cash equivalents	2,519,503	
Total bank deposits	19,419	
Total cash and cash equivalents	$ 2,538,922	

* *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. The pledged securities shall be one of the following types:

1. Negotiable obligations of the Unites States Government; or
2. Negotiable obligations of any agency or instrumentality of the United States Government guaranteed by the full faith and credit of the United States government; or
3. Negotiable obligations of the Commonwealth of Virginia or political subdivisions thereof, rated A or better by Moody's Investor Service or Standard & Poor's.

4. Due From Governments

Government receivables consisted of the following at June 30, 2005:

Federal Transit Administration	$ 11,911,336
Commonwealth of Virginia	1,716,731
	$ 13,628,067

5. Inventories

Inventories consisted of the following at June 30, 2005:

Bus and service vehicle parts	$ 2,303,187
Fuel and oil	240,753
	$ 2,543,940

6. Capital Assets

A summary of changes in capital assets follows:

	Balance September 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated				
Land	$ 2,077,496	$ -	$ -	$ 2,077,496
Capital assets being depreciated:				
Buses	85,657,565	102,835	(1,459)	85,758,941
Buildings and improvements	30,242,129	181,099	-	30,423,228
Service vans	7,231,835	874,152	-	8,105,987
Pedestrian ferries and docks	5,704,029	72,418	-	5,776,447
Fare collection equipment	6,871,842	347,869	-	7,219,711
Shop and garage equipment	4,675,797	-	-	4,675,797
Radio and communications equipment	4,259,031	-	-	4,259,031
Management information system	3,259,097	269,250	-	3,528,347
Furniture and office equipment	2,090,379	-	-	2,090,379
Bus shelters and signs	2,246,436	15,984	-	2,262,420
Service vehicles	559,069	-	-	559,069
Supervisory vehicles	574,260	-	-	574,260
	153,371,469	1,863,607	(1,459)	155,233,617
Less - accumulated depreciation	(100,472,747)	(8,766,932)	1,459	(109,238,220)
	$ 54,976,218	$ (6,903,325)	$ -	$ 48,072,893

7. Unearned Reimbursements - Net

Amounts advanced (owed) by participating municipalities or the Commonwealth of Virginia pursuant to various operating subsidy and/or grant agreements are as follows as of June 30, 2005:

City of Chesapeake	$ (21,216)
City of Hampton	(102,456)
City of Newport News	(36,101)
City of Norfolk	(479,357)
City of Portsmouth	18,010
City of Suffolk	(39,580)
City of Virginia Beach	564,073
	$ (96,627)

The aforementioned amounts are shown on the accompanying statements of net assets as follows:

Due from cities	$ (678,710)
Unearned reimbursements	582,083
	$ (96,627)

8. Note Payable - Bank

The Commission has a revolving line of credit of $10,000,000, which matures September 30, 2005. Advances on the line of credit was collateralized by the pledging of all revenues, federal grants and non-federal operating subsidies of the Commission. Interest on advances is payable monthly at 68% of the London Interbank Offered Rate (LIBOR) plus 65 basis points (2.92% at June 30, 2005). As of June 30, 2005, the Commission had borrowed $9,000,000 against the line of credit.

9. Subsidies and Grants

Subsidies and grants for operating purposes were as follows for the nine months June 30, 2005:

Federal	$ 12,800,417
State	7,617,420
Local	8,871,434
	$ 29,289,271

10. 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, 2005, contributions received exceed amounts expended from local governments by $784,302 and is shown in the accompanying consolidated statement of net assets as advanced capital contributions.

11. 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. 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 (age 60 with 5 years service for participating law enforcement officers, firefighters and sheriffs) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers, firefighters and sheriffs) 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 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.vayetire.org/pdf/2004annurept.pdf 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 nine months ended June 30, 2005 was 1%.

c) Annual Required Contribution (ARC)

For the nine months ended June 30, 2005, the Commission's actual contribution of $38,648 was equal to the Commission's required ARC. The required contribution was determined as part of the June 30, 2004 actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 8%, (b) projected salary increases ranging from 4.25% to 6.10%, and (c) cost-of-living adjustments of 3%. Both (a) and (b) included an inflation component of 3%.

d) Schedule of Employer Contributions

Period	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
Nine months ended June 30, 2005	$38,648	100%	$-0-
Year ended September 30, 2004	$56,778	100%	$-0-
Year ended September 30, 2003	$65,550	100%	$-0-

e) Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability (OAAL)	Funded Ratio	Annual Covered Payroll	OAAL as Percentage of Payroll
June 30, 2004	$14,036,498	$10,929,522	$3,106,976	128.4%	$5,577,491	55.7%
June 30, 2003	$13,933,052	$10,812,364	$3,120,688	128.9%	$6,581,798	47.4%
June 30, 2002	$13,574,645	$10,246,405	$3,328,240	132.5%	$6,335,538	52.5%

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, 2004
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	17 Years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return[1]	8.00%
Projected salary increases[1]	4.25% to 6.10%
Cost-of-living adjustments	3.00%

[1] *Includes inflation at 3%.*

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. 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

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 nine months ended June 30, 2005, the Commission's actual contribution of $801,338 was equal to the Commission's ARC. The required contribution was determined as part of the December 31, 2003, actuarial valuation. The actuarial assumptions included (a) a rate of return on the investment of 7.50%, 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, 2003	$1,012,964	135%	$ (1,119,087)
December 31, 2002	$869,402	130%	$ (774,982)
December 31, 2001	$851,384	114%	$ (520,629)

e) Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2003	$17,326,845	$23,467,908	$ (6,141,063)	73.83%	$ 10,142,700	60.55%
December 31, 2002	$15,992,856	$22,274,902	$ (6,282,046)	71.80%	$ 10,242,304	61.33%
December 31, 2001	$15,543,983	$21,375,004	$ (5,831,021)	72.72%	$ 9,902,078	58.89%

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, 2004
Actuarial cost method	Entry Age Normal cost method
Amortization method	Level percent of payroll for remaining unfunded liability
Remaining amortization period	13 Years from January 1, 2004 for the remaining unfunded liability
Asset valuation method	Sum of actuarial value at beginning of year and increase in cost value during year excluding realized capital gains or losses plus 20% of market value at end of year in excess of that sum, plus additional write-up as necessary so that final actuarial value is within 20% of market value. Similar formula used for write-down if actuarial value exceeds market value.
Actuarial assumptions:	
Investment rate of return	7.5%
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 plan members and the Commission are established and may be amended by the terms of the collective bargaining agreement between the Commission and the Union. Plan members are required to contribute 2.5% of their annual salary. The Commission is required to contribute at an actuarially determined rate; the current rate is 6% of annual covered payroll.

c) Annual Required Contributions (ARC)

The Commissions' ARC and contributions to the plan for the nine month period were as follows:

ARC	$349,371
Contributions made	$281,899

The annual required contribution for the current year was determined as part of the July 1, 2004, actuarial valuation using the frozen entry age actuarial cost method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and projected salary increases of 5.5% 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, 2005	$465,828	77%	$ (400,538)
June 30, 2004	$424,935	80%	$ (478,743)
June 30, 2003	$357,303	111%	$ (549,137)

e) Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Excess (Deficiency)* of Assets Over AAL	Funded Ratio	Annual Covered Payroll	Overfunded AAL Excess (Deficiency)* as a Percentage of Covered Payroll
July 1, 2004	$ 12,132,446	$ 12,701,254	$ (568,808)	96%	$ 5,386,400	(10%)
July 1, 2003	$ 11,456,612	$ 11,889,171	$ (432,559)	96%	$ 5,885,526	(7%)
July 1, 2002	$ 10,918,782	$ 10,703,513	$ 215,269	102%	$ 5,815,468	4%

** A deficiency represents an unfunded actuarial accrued liability (UAAL).*

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, 2004
Actuarial cost method	Frozen Entry Age Actuarial 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	5.5%

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 nine months ended June 30, 2005, totaled $350,455.

12. 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 non-union 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, 2005, the Commission has accrued $496,391 for compensated absences.

13. 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.

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, and the insurance company covers the next $25,000,000 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.

Collective Bargaining Agreement

The Commission is party to a collective bargaining agreement through September 30, 2005, with Amalgamated Transit, Local Union No. 1177. Employee benefits provided by this agreement include health, welfare and pension. The parties have held a number of bargaining sessions, however a new agreement is not yet signed. The current bargaining agreement has been extended on a month-to-month basis pending continued negotiations. Management believes any potential additional liability from a new collective bargaining arrangement will not have a material adverse effect on the Commission's consolidated financial position.

* * * * * *

Transportation District Commission of Hampton Roads

Supplementary Information

Nine Months Ended June 30, 2005

Transportation District Commission of Hampton Roads

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

Nine Months Ended June 30, 2005

	Actual	Budgeted	Actual Over (Under) Budget
Revenues			
Passenger fares	$ 10,989,655	$ 10,685,000	$ 304,655
Charter and contracts	118,095	120,000	(1,905)
Vanpool rentals	69,551	35,000	34,551
Auxiliary	429,110	514,000	(84,890)
Expense reimbursements	956,604	2,017,156	(1,060,552)
Nontransportation	93,701	100,000	(6,299)
Total revenues	12,656,716	13,471,156	(814,440)
Subsidies and grants			
Municipal subsidies	8,871,434	7,830,397	1,041,037
State operating subsidies	7,617,420	7,609,093	8,327
Federal operating grants	12,800,417	13,530,125	(729,708)
Total subsidies and grants	29,289,271	28,969,615	319,656
Total revenues, subsidies and grants	$ 41,945,987	$ 42,440,771	$ (494,784)

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	$ 12,656,716
Subsidies and grants	29,289,271
	$ 41,945,987

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

Nine Months Ended June 30, 2005

	Actual	Budgeted	Actual Over (Under) Budget
Transit activity expenses			
Labor	$ 17,436,678	$ 18,054,400	$ (617,722)
Fringe benefits	8,596,354	8,900,894	(304,540)
Materials and supplies	6,711,999	6,202,908	509,091
Insurance - net of ordinary recoveries	1,370,504	1,336,137	34,367
Purchase of transportation services	4,273,673	4,331,585	(57,912)
Contractual services	2,407,980	2,245,475	162,505
Utilities	586,301	507,603	78,698
Other operating expenses	808,159	861,769	(53,610)
Total transit activity expenses before depreciation and amortization	$ 42,191,648	$ 42,440,771	$ (249,123)

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	$ 42,191,648
Depreciation and amortization	9,533,434
Self insurance net decrease in net assets	515,654
	$ 52,240,736

Transportation District Commission of Hampton Roads

Schedule of Cumulative Capital Grant Project Costs

Nine Months Ended June 30, 2005

Grant ID	Description	Year	Entity	Total Budgeted Grant Award	Total Project Costs to Date	Total Balance Available
47003-21	Regional TDM Program Traffix	2004	TDCHR	$ 1,000,000	$ 960,071	$ 39,929
47003-21	Regional TDM Program Traffix	2004	TDCHR	1,100,000	1,100,000	-
VA 03-0061	Virginia Beach Multimodal Facility	1997	TTDC	1,240,625	651,457	589,168
VA 03-0075	Ferry Docking Facility	2000	TDCHR	4,255,936	4,170,100	85,836
VA 03-0082	Regional Bus Plan	2002	TDCHR	9,443,940	1,038,582	8,405,358
VA 03-0093	Fixed Guideway Grant	2004	TDCHR	2,350,000	1,674,579	675,421
VA 90-X002	Capital Assistance	2003	TDCHR	50,000	50,000	-
VA 90-X144	Capital Assistance	1996	PTDC	3,296,335	3,147,594	148,741
VA 90-X155	Capital Assistance	1997	PTDC	5,138,530	5,109,358	29,172
VA 90-X156	Capital Assistance	1997	TTDC	7,466,000	7,466,000	-
VA 90-X167	Capital Assistance	1998	TTDC	4,866,641	4,866,641	-
VA 90-X169	Capital Assistance	1999	TTDC	13,661,090	13,661,090	-
VA 90-X182	Capital Assistance	1999	TTDC	20,797,970	20,797,970	-
VA 90-X189	Capital Assistance	2000	TDCHR	25,373,505	25,171,509	201,996
VA 90-X206	Capital Assistance	2001	TDCHR	34,110,818	33,666,662	444,156
VA 90-X214	Capital Assistance	2002	TDCHR	30,788,323	27,968,742	2,819,581
VA 90-X228	Capital Assistance	2003	TDCHR	29,888,787	26,598,607	3,290,180
VA 90-X239	Capital Assistance	2004	TDCHR	5,453,200	3,913,194	1,540,006
VA 90-X249	Capital Assistance	2004	TDCHR	14,021,582	14,021,582	-
VA 90-X259	Capital Assistance	2005	TDCHR	18,180,588	13,640,532	4,540,056
				$ 232,483,870	$ 209,674,270	$ 22,809,600

Transportation District Commission of Hampton Roads

Compliance Reports

Nine Months Ended June 30, 2005

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 nine months ended June 30, 2005, and have issued our report thereon dated October 7, 2005. 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 Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 October 7, 2005.

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.

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

Newport News, Virginia
October 7, 2005

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

The 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 nine months ended June 30, 2005. 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 nine months ended June 30, 2005.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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
October 7, 2005

Transportation District Commission of Hampton Roads

Schedule of Expenditures of Federal Awards

Nine Months Ended June 30, 2005

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 03-0061	Virginia Beach Multimodal Facility	TDCHR	2004	20.500	*	$ 517,207
VA 03-0075	Ferry Docking Facility	TDCHR	2000	20.500	*	292,253
VA 03-0082	Regional Bus Plan	TDCHR	2002	20.500	*	486,414
VA 03-0093	Fixed Guideway Grant	TDCHR	2005	20.500	*	1,339,663
VA 90-X144	Capital Assistance	PTDC	1996	20.500	*	(120,787) **
VA 90-X155	Capital Assistance	PTDC	1997	20.500	*	(1,216) **
VA 90-X156	Capital Assistance	TTDC	1997	20.500	*	1,162
VA 90-X167	Capital Assistance	TTDC	1998	20.500	*	14,258
VA 90-X169	Capital Assistance	TTDC	1999	20.500	*	19,590
VA 90-X182	Capital Assistance	TTDC	1999	20.500	*	133,991
VA 90-X189	Capital Assistance	TDCHR	2000	20.500	*	135,730
VA 90-X206	Capital Assistance	TDCHR	2001	20.500	*	(122,670) **
VA 90-X214	Capital Assistance	TDCHR	2002	20.500	*	1,522,561
VA 90-X228	Capital Assistance	TDCHR	2003	20.500	*	1,284,661
VA 90-X239	Capital Assistance	TDCHR	2004	20.500	*	472,401
VA 90-X249	Capital Assistance	TDCHR	2004	20.500	*	(10,996) **
VA 90-X259	Capital Assistance	TDCHR	2005	20.500	*	10,912,426
Total all capital improvement grants						16,876,648
Passed through from Department of Rail and Public Transportation						
47003-21 Regional TDM program Traffix		TDCHR	2004	20.507	*	250,033
Passed through from Southeastern Virginia Planning District Commission						
Federal Transit Administration Technical Studies Grants:	Section 8 Grant			20.507	*	355,018
Total Department of Transportation						$ 17,481,699

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

** Negative amounts represents a reallocation of costs among various grants.

See accompanying notes to schedule of expenditures of federal awards.

June 30, 2005

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, 2005

1. **Summary of Auditors' Results**

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

   b. There were no reportable conditions noted in internal control to disclose.

   c. The audit did not disclose any noncompliance material to the consolidated financial statements.

   d. There were no reportable conditions 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 $524,451.

   i. The Commission did not qualify as a low-risk auditee.

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

   None

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

   None

4. **Status of Prior Year Findings**

   There were no findings for the prior year.