TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

ANNUAL FINANCIAL REPORT

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS

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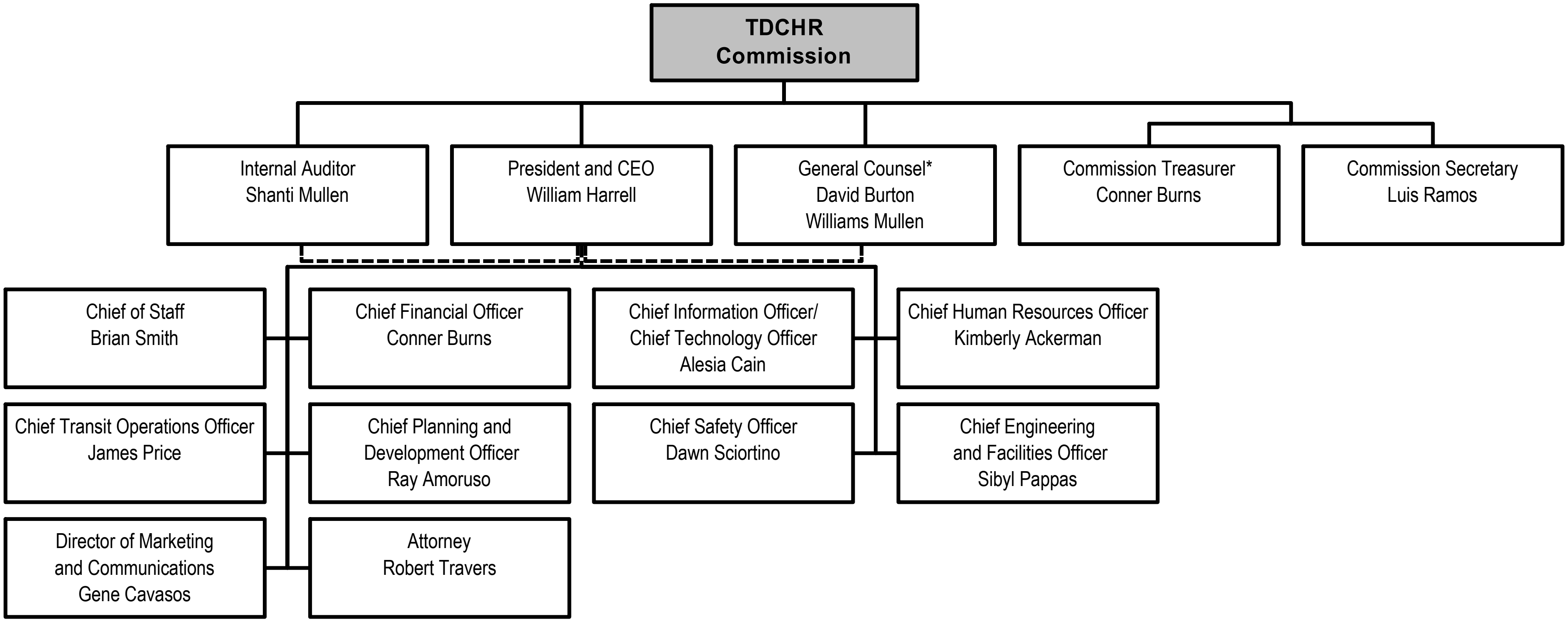
ORGANIZATIONAL CHART
JUNE 30, 2020



Note:

The General Counsel and Internal Auditor report to the President/CEO on daily business matters; but they serve at the pleasure of the Commission and have direct access to the Commission as required.

*Additional support provided by Attorney.

CHAIRMAN

Douglas W. Fuller
City of Chesapeake

VICE – CHAIRMAN

Charles B. Hunter
City of Portsmouth

COMMISSIONERS

Robert Coleman
City of Newport News

Jimmy Gray
City of Hampton

Matthew Hamel
City of Chesapeake

Gaylene Kanoyton
City of Hampton

Andria McClellan
City of Norfolk

Jennifer Mitchell
Virginia Department of Rail and Public Transportation

William J. Moffett
City of Hampton

Keith Parnell
City of Norfolk

Amelia Ross-Hammond
City of Virginia Beach

Aaron Rouse
City of Virginia Beach

John L. Rowe
City of Portsmouth

Patricia P. Woodbury
City of Newport News

EXECUTIVE LEADERSHIP TEAM

President and Chief Executive Officer	William E. Harrell
Chief Financial Officer	Conner Burns
Chief Human Resources Officer	Kimberly Ackerman
Chief Planning and Development Officer	Raymond Amoruso
Chief Information Officer/Chief Technology Officer	Alesia Cain
Chief Safety and Security Officer	Dawn Sciortino
Chief Environmental and Facilities Officer	Sibyl Pappas
Chief Transit Operations Officer	James E. Price, Jr.
Chief of Staff	Brian Smith
Director of Marketing and Communications	Gene Cavasos
Attorney	Robert Travers

FINANCE STAFF

Director of Finance	Debbie Ball
Assistant Director of Finance	Larry Kirk
Director of Budget and Financial Analysis	Angela Glass
Director of Procurement	Sonya Luther
Director of Treasury	Sheri Dixon

FINANCIAL SECTION

Report of Independent Auditor

To the Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation District Commission of Hampton Roads (the "Commission"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specification 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2020 and 2019, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has elected to omit management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The Introductory Section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2022, 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
February 24, 2022

FINANCIAL STATEMENTS

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2020**	**2019**
Current Assets:		
Cash and cash equivalents	$ 7,077,641	$ 12,030,111
Due from governments	18,998,063	22,326,961
Accounts receivable	327,857	468,782
Inventories	10,921,970	7,159,783
Prepaid expenses	2,660,900	1,983,796
Total Current Assets	39,986,431	43,969,433
Noncurrent Assets:		
Capital assets, net	254,178,356	262,198,417
Intangible assets, net	51,322	53,418
Net pension asset	2,320,763	2,860,584
Total Noncurrent Assets	256,550,441	265,112,419
Total Assets	296,536,872	309,081,852
Deferred Outflows of Resources:		
Deferred outflows of resources - pension	4,265,206	8,967,391
Deferred outflows of resources - OPEB group life insurance	278,145	157,044
Deferred outflows of resources - OPEB disability program	76,818	45,498
Total Deferred Outflows of Resources	4,620,169	9,169,933
Total Assets and Deferred Outflows of Resources	$ 301,157,041	$ 318,251,785
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Notes payable - bank	$ 6,255,000	$ 16,605,091
Current portion of long-term capital lease	422,327	408,544
Accounts payable	13,907,156	4,579,337
Accrued expenses	5,887,836	4,062,894
Unearned reimbursements, net	3,972,561	229,041
Self-insurance liability	4,080,791	3,307,687
Advanced capital contributions	9,131,051	7,301,981
Total Current Liabilities	43,656,722	36,494,575
Other Liabilities:		
Long-term capital lease	473,616	895,943
Unearned revenues	5,483,012	5,183,598
Net pension liability	5,047,157	12,438,865
Net OPEB liability - group life insurance	1,437,365	1,377,000
Net OPEB liability - disability program	41,426	16,000
Total Other Liabilities	12,482,576	19,911,406
Total Liabilities	56,139,298	56,405,981
Deferred Inflows of Resources:		
Deferred inflows of resources - pension	6,039,044	3,683,401
Deferred inflows of resources - OPEB group life insurance	165,599	179,000
Deferred inflows of resources - OPEB disability program	3,663	4,000
Total Deferred Inflows of Resources	6,208,306	3,866,401
Total Liabilities and Deferred Inflows of Resources	62,347,604	60,272,382
Net Position:		
Net investment in capital assets	253,333,735	260,947,348
Restricted	3,080,791	2,307,687
Unrestricted (deficit)	(17,605,089)	(5,275,632)
Total Net Position	238,809,437	257,979,403
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 301,157,041	$ 318,251,785

See accompanying notes to the financial statements.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating Revenues:		
Passenger fares	$ 10,861,288	$ 15,319,483
Charters and contracts	2,302,217	2,261,886
Auxiliary	951,742	1,138,852
Nontransportation	98,010	107,556
Total Operating Revenues	14,213,257	18,827,777
Operating Expenses:		
Labor	50,005,489	48,417,080
Fringe benefits	17,386,593	14,218,004
Depreciation and amortization	27,889,561	29,053,413
Materials and supplies	8,923,936	11,726,745
Purchase of transportation services	8,437,173	7,891,394
Contractual services	8,646,308	7,864,266
Insurance, net of ordinary recoveries	3,154,380	3,144,338
Utilities	1,081,510	1,160,013
Other	1,342,570	1,399,934
Total Operating Expenses	126,867,520	124,875,187
Operating loss before subsidies and grants	(112,654,263)	(106,047,410)
Subsidies and grants	94,139,560	78,456,438
Operating loss before other income (expenses)	(18,514,703)	(27,590,972)
Other Income (Expenses):		
Interest income	180,810	145,917
Interest expense	(228,937)	(342,716)
Gain on sale of capital assets	17,032	21,710
Noncapitalized grant expenditures	(20,491,572)	(10,264,625)
Total Other Expenses, net	(20,522,667)	(10,439,714)
Loss before proceeds from capital grants	(39,037,370)	(38,030,686)
Proceeds from capital grants	19,867,404	24,563,125
Change in net position	(19,169,966)	(13,467,561)
Net position, beginning of year	257,979,403	271,446,964
Net position, end of year	$ 238,809,437	$ 257,979,403

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Receipts from customers and users	$ 14,354,182	$ 18,757,134
Payments to suppliers for goods and services	(25,933,969)	(39,147,486)
Payments to employees	(65,431,843)	(62,808,628)
Net cash used in operating activities	(77,011,630)	(83,198,980)
Cash flows from noncapital financing activities:		
Operating subsidies and grants received	98,182,495	78,549,755
Net increase (decrease) in note payable - bank	(10,350,091)	1,105,091
Net cash provided by noncapital financing activities	87,832,404	79,654,846
Cash flows from capital and related financing activities:		
Increase in advanced capital contributions	1,829,070	753,288
Interest expense	(228,937)	(342,716)
Acquisition of capital assets and intangible assets	(19,867,404)	(14,298,499)
Noncapitalized grant expenditures	(20,491,572)	(10,264,625)
Proceeds from disposition of capital assets	17,032	163,868
Proceeds from capital grants	23,196,301	24,731,945
Payments on long-term capital lease	(408,544)	(395,210)
Net cash provided by (used in) capital and related financing activities	(15,954,054)	348,051
Cash flows from investing activities:		
Interest income	180,810	145,917
Net change in cash and cash equivalents	(4,952,470)	(3,050,166)
Cash and cash equivalents, beginning of year	12,030,111	15,080,277
Cash and cash equivalents, end of year	$ 7,077,641	$ 12,030,111
Reconciliation of operating loss before subsidies and grants to net cash used in operating activities:		
Operating loss before subsidies and grants	$ (112,654,263)	$ (106,047,410)
Adjustments to reconcile operating loss before subsidies and grants to net cash used in operating activities:		
Depreciation and amortization	27,889,561	29,053,413
Change in:		
Accounts receivable	140,925	(70,643)
Inventories	(3,762,187)	(594,660)
Prepaid expenses	(677,104)	(562,454)
Accounts payable	9,327,819	(4,396,219)
Accrued expenses	1,824,942	(238,868)
Net pension/OPEB liability	125,573	65,324
Self-insurance liability	773,104	(407,463)
Net cash used in operating activities	$ (77,011,630)	$ (83,198,980)

See accompanying notes to the financial statements.

Note 1—Organization and nature of business

The Transportation District Commission of Hampton Roads (the "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, 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 management.

Note 2—Summary of significant accounting policies

Reporting Entity – Transit Management Company ("Subsidiary") is a wholly owned subsidiary of the Commission. The Subsidiary is considered a component unit of the Commission for reporting purposes. 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 financial statements. All intercompany accounts and transactions have been eliminated.

Basis of Accounting and Financial Statement Presentation – The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

Investments – Investments are stated at fair value, with the exception of investments in the Virginia Local Government Investment Pool ("LGIP"), an external 2a7-like investment pool, which is presented at share price. All fair market valuations are based on quoted market prices. LGIP shares are based on amortized cost of the LGIP's underlying portfolio.

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 consumption method. Inventories are used for operations and are not for resale.

Capital Assets – Capital assets, which include infrastructure, equipment, property (e.g., buses, ferries and docks, trolleys, and light rail vehicles), and intangible assets (e.g., computer software) are reported at cost and depreciated using the straight-line method based on estimated useful lives of 3 to 50 years. Capital assets other than equipment, property, and infrastructure assets are defined by Hampton Roads Transit ("HRT") as an asset with initial individual cost of $5,000 or more with a useful life greater than one year. Donated assets are valued at their estimated acquisition value on the date donated. The cost of repairs and maintenance that do not add value or extend an asset's life are not capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized. Most property and equipment is acquired with grant proceeds so the method and use of proceeds from disposition of property and equipment is restricted by the grant requirements.

Note 2—Summary of significant accounting policies (continued)

Capital assets are depreciated using the straight-line method with estimated useful lives:

Buildings and improvements	10 - 50 years
Light rail vehicles and infrastructure	10 - 30 years
Ferries and docks	10 - 20 years
Buses	7 - 12 years
Equipment and other	3 - 13 years
Vehicles	3 - 4 years
Intangibles	3 - 5 years

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until that time. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as revenue until that time.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Transportation District Commission of Hampton Roads' Retirement Plan and the additions to/deductions from the Transportation District Commission of Hampton Roads' net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System ("VRS"). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Group Life Insurance – VRS Group Life Insurance ("GLI") Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program other postemployment benefit ("OPEB") liability, deferred outflows of resources and deferred inflows of resources related to the GLI Program OPEB, and GLI Program OPEB expense, information about the fiduciary net position of the VRS GLI program OPEB and the additions to/deductions from the VRS GLI Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Disability Program – The VRS Political Subdivision Employee Virginia Local Disability Program ("VLDP") is a multiple-employer, cost-sharing plan. For purposes of measuring the net Political Subdivision Employee VLDP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB, and the Political Subdivision Employee VLDP OPEB expense, information about the fiduciary net position of the VRS Political Subdivision Employee VLDP; and the additions to/deductions from the VRS Political Subdivision Employee VLDP's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2—Summary of significant accounting policies (continued)

Unearned Revenues – Federal funds originally designated for the extension of light rail to the City of Virginia Beach, Virginia is currently being held for the purchase of buses.

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.

Net Position – Net position represents the residual interest in the Commission's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets; restricted for self-insurance; and unrestricted. Net investment in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to capital expenditures. The Commissions' restricted amounts for self-insurance are expendable and relate to amounts restricted for the self-insurance liability. Unrestricted amounts may be designated for specific purposes by action of management or the board of commissioners.

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 fiscal year ending June 30th. 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 financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and deferred outflows and inflows of resources, and disclosure of contingent assets and liabilities for the reported period. Actual results could differ from those estimates and assumptions.

Note 2—Summary of significant accounting policies (continued)

Cash and cash equivalents

Deposits – At June 30, 2020 and 2019, the carrying value of the Commission's deposits with financial institutions was $4,280,343 and $9,221,639, respectively, and the bank balances were $8,590,059 and $9,909,141, respectively. All of the bank balances were 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, 2020 and 2019, the Commission had $2,796,298 and $2,808,472, respectively, invested in money market funds valued at fair value. 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 (the "Commonwealth") 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 LGIP. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The LGIP values portfolio securities by the amortized cost method and on a monthly basis this valuation is compared to current market to monitor any variance. The LGIP is in compliance with the requirements of generally accepted accounting principles in the United States of America ("U.S. GAAP") and elects to measure its investments at amortized cost for financial reporting. Therefore, participants in LGIP should also measure their investments in the LGIP at amortized cost for financial reporting. The Policy establishes an investment committee consisting of the Chief Financial Officer, 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 the Commonwealth's statue, the Policy requires that commercial paper have a short-term debt rating of not 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.

At June 30, 2020 and 2019, 100% of the Commission's cash equivalents were invested in money market funds and the LGIP.

Note 3—Cash and cash equivalents and investments

Concentration of Credit Risk – The Commission's main depository is selected through a formal procurement process at least once every five years. The Chief Financial Officer 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.

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 Federal Savings and Loan Insurance Corporation ("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 transactions 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.

Fair Value – The Commission categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy base on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission's investments in other money market funds are considered to be Level 1.

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.

Note 4—Due from governments

Government receivables consisted of the following:

	2020	2019
Federal Transit Administration	$ 17,710,389	$ 19,417,681
Commonwealth of Virginia	1,287,674	1,634,459
Local governments	-	1,274,821
Total	$ 18,998,063	$ 22,326,961

Note 5—Inventories

Inventories consisted of the following:

	2020	2019
Bus and service vehicle parts	$ 5,688,496	$ 4,469,991
Light rail parts	5,076,817	2,467,730
Fuel and oil	156,657	222,062
Total	$ 10,921,970	$ 7,159,783

Note 6—Capital and intangible assets

A summary of changes in capital assets is as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets not being depreciated:				
Land	$ 8,900,798	$ -	$ -	$ 8,900,798
Construction in process:				
Buildings and improvements	9,988	-	9,988	-
Other	6,290,392	1,151,814	-	7,442,206
Total capital assets not being depreciated	15,201,178	1,151,814	9,988	16,343,004
Capital assets being depreciated:				
Buses	114,739,959	13,925,097	7,496,898	121,168,158
Buildings and improvements	96,499,385	-	-	96,499,385
Equipment	25,111,998	-	190,925	24,921,073
Ferries and docks	7,207,394	-	-	7,207,394
Other	9,739,049	225,245	-	9,964,294
Vehicles	7,575,929	4,575,236	2,086,280	10,064,885
Intangibles	4,497,664	-	-	4,497,664
Light rail	256,108,229	-	-	256,108,229
Total capital assets being depreciated	521,479,607	18,725,578	9,774,103	530,431,082
Less accumulated depreciation and amortization for:				
Buses	80,942,518	7,869,713	7,496,898	81,315,333
Buildings and improvements	40,361,113	4,415,496	-	44,776,609
Equipment	23,733,612	278,884	190,925	23,821,571
Ferries and docks	3,400,986	195,587	-	3,596,573
Other	7,410,433	923,840	-	8,334,273
Vehicles	7,553,173	579,121	2,086,280	6,046,014
Intangibles	4,444,246	2,096	-	4,446,342
Light rail	106,582,869	13,624,824	-	120,207,693
Total accumulated depreciation and amortization	274,428,950	27,889,561	9,774,103	292,544,408
Total capital assets being depreciated - net	247,050,657	(9,163,983)	-	237,886,674
Total capital assets - net	$ 262,251,835	$ (8,012,169)	$ 9,988	$ 254,229,678

Note 6—Capital and intangible assets (continued)

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Land	$ 8,900,798	$ -	$ -	$ 8,900,798
Construction in process:				
Buildings and improvements	3,276,104	9,988	3,276,104	9,988
Other	7,472,024	4,885,584	6,067,216	6,290,392
Total capital assets not being depreciated	19,648,926	4,895,572	9,343,320	15,201,178
Capital assets being depreciated:				
Buses	111,057,234	11,317,360	7,634,635	114,739,959
Buildings and improvements	90,081,795	6,417,590	-	96,499,385
Equipment	25,164,478	24,415	76,895	25,111,998
Ferries and docks	8,992,772	138,657	1,924,035	7,207,394
Other	9,441,861	836,442	539,254	9,739,049
Vehicles	7,575,929	-	-	7,575,929
Intangibles	4,497,664	-	-	4,497,664
Light rail	256,096,446	11,783	-	256,108,229
Total capital assets being depreciated	512,908,179	18,746,247	10,174,819	521,479,607
Less accumulated depreciation and amortization for:				
Buses	78,403,199	10,173,685	7,634,366	80,942,518
Buildings and improvements	36,403,306	3,957,807	-	40,361,113
Equipment	23,372,943	437,564	76,895	23,733,612
Ferries and docks	4,960,074	223,058	1,782,146	3,400,986
Other	6,842,478	1,107,209	539,254	7,410,433
Vehicles	7,531,737	21,436	-	7,553,173
Intangibles	4,442,019	2,227	-	4,444,246
Light rail	93,452,442	13,130,427	-	106,582,869
Total accumulated depreciation and amortization	255,408,198	29,053,413	10,032,661	274,428,950
Total capital assets being depreciated - net	257,499,981	(10,307,166)	142,158	247,050,657
Total capital assets - net	$ 277,148,907	$ (5,411,594)	$ 9,485,478	$ 262,251,835

Note 7—Unearned reimbursements – net

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

	2020	2019
City of Chesapeake	$ 193,202	$ 82,598
City of Hampton	357,753	71,325
City of Newport News	616,997	170,930
City of Norfolk	2,011,938	73,542
City of Portsmouth	232,087	(84,838)
City of Virginia Beach	560,584	(84,516)
Total	$ 3,972,561	$ 229,041

For 2020 and 2019, the amounts owed by (due to) participating Virginia municipalities are included in due from governments in the Statements of Net Position.

Note 8—Notes payable – bank

The Commission has a revolving line of credit of $17,000,000, which matures January 31, 2024. 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 a fluctuating rate per annum equal to 83% of the London Interbank Offered Rate (LIBOR) plus 140 basis points with a floor of 3%.

At June 30, 2020 and 2019, the Commission owed $6,255,000 and $16,605,091 against the line of credit, respectively. At June 30, 2020 and 2019, the Commission had $10,745,000 and $394,909, respectively, available under the line of credit agreement. The agreement provides for certain actions to be taken in events of default including acceleration of payment of the line of credit balance, termination of the lender's commitment to make further advances, foreclosure against collateral pledged under the provisions of the agreement, and increasing the interest rate in effect by the 3% default rate until paid in full.

Note 9—Long-term debt

Following is a summary of debt transactions of the Commission:

	2019	Additions	Reductions	2020	Due Within One Year
Self-insurance	$ 3,307,687	$ 2,228,282	$ 1,455,178	$ 4,080,791	$ 4,080,791
Compensated absences	1,356,372	3,001,734	2,777,922	1,580,184	1,580,184
Capital lease	1,304,487	-	408,544	895,943	422,327
Net OPEB liability	1,393,000	139,053	53,262	1,478,791	-
Net pension liability, net of pension asset	9,578,281	8,163,560	15,015,447	2,726,394	-
Total	$ 16,939,827	$ 13,532,629	$ 19,710,353	$ 10,762,103	$ 6,083,302

	2018	Additions	Reductions	2019	Due Within One Year
Self-insurance	$ 3,715,150	$ 822,940	$ 1,230,403	$ 3,307,687	$ 3,307,687
Compensated absences	1,273,430	2,359,905	2,276,963	1,356,372	1,356,372
Capital lease	1,699,697	-	395,210	1,304,487	408,544
Net OPEB liability	1,433,000	6,000	46,000	1,393,000	-
Net pension liability, net of pension asset	5,749,626	15,062,967	11,234,312	9,578,281	-
Total	$ 13,870,903	$ 18,251,812	$ 15,182,888	$ 16,939,827	$ 5,072,603

Note 10—Lease transactions

Operating Leases – In 2008, the Commission entered into cancellable leasing arrangements for warehouse and storage facilities expiring in various years through 2021. For 2020 and 2019, lease expense was $145,647 and $99,069, respectively.

Capital Leases – In 2015, the Commission entered into a capital lease to purchase seven 40-foot buses to add to their fleet. The buses were capitalized at a cost of $3,127,291. Depreciation expense of $260,575, on the assets under lease, is included in depreciation expense on the statement of revenue, expenses, and changes in net position for each of the years ended June 30, 2020 and 2019, respectively. This resulted in accumulated depreciation of $1,563,450 and $1,302,875 as of June 30, 2020 and 2019, respectively.

Note 10—Lease transactions (continued)

Future minimum lease payments under this lease as of June 30, 2020 are as follows:

Fiscal Years Ending June 30,	
2021	$ 445,704
2022	445,704
2023	37,143
Total future minimum lease payments	928,551
Less amounts representing interest	(32,608)
Total principal due under capital lease obligation	895,943
Less current portion	(422,327)
Long-term portion of capital lease obligation	$ 473,616

Note 11—Compensated absences

All full-time administrative employees not covered under collective bargaining agreements earn vacation in accordance with Commission policy as follows:

Length of Service	Days Earned Per Year
0 - 5 years	10 days
6 - 10 years	15 days
11 or more years	20 days

All non-union employees may accumulate and roll-over annual leave from year to year with no limits, and up to a maximum of 320 hours may be paid upon separation. All union employees under collective bargaining agreements earn vacation on a pay-as-you-take-it policy and vacation balances do not carry over into the next calendar year. At June 30, 2020 and 2019, the Commission has accrued $1,580,184 and $1,356,372, respectively, for compensated absences. Compensated absences are included in accrued expenses on the Statements of Net Position.

Note 12—Self-insurance

General Liability Self-Insurance – The Commission is self-insured with a retention amount of $1,000,000 of each occurrence. The Commission purchases excess insurance above the retention.

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 financial condition.

Workers' Compensation Self-Insurance – The Commission is also self-insured for workers' compensation. To minimize the potential for excessive claims, the Commission obtained excess workers' compensation insurance. The Commission is self-insured with a retention amount of $600,000 of each occurrence. The Commission purchases excess insurance above the retention.

Following is a summary of changes in self-insurance claims payable for the last three fiscal years ended June 30:

	Beginning Balance	Claims and Reserves	Claim Payments	Ending Balance
2020	$ 3,307,687	$ 2,228,282	$ 1,455,178	$ 4,080,791
2019	3,715,150	822,940	1,230,403	3,307,687
2018	4,697,854	809,239	1,791,943	3,715,150

Note 13—Subsidies and grants

Subsidies and grants for operating purposes were as follows:

	2020	2019
Federal	$ 35,686,936	$ 40,218,659
State	34,872,716	20,062,372
Local	43,447,312	42,738,532
Total Grants	114,006,964	103,019,563
Capital Grants	(19,867,404)	(24,563,125)
Operating Grants	$ 94,139,560	$ 78,456,438

Note 14—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, 2020 and 2019, contributions received from local governments exceeded amounts expended by $9,131,051 and $7,301,981, respectively.

Note 15—Defined benefit pension plan

HRT participates in an agent, multiple employer defined benefit pension plan administered by the Virginia Retirement System ("VRS" or "System"). HRT also administers a single employer defined pension plan for its collectively bargained employees.

Virginia Retirement Plan

Plan Description – All full-time, salaried permanent employees of the Commission are automatically covered by the VRS Retirement Plan ("Plan") upon employment. This Plan is administered by the Virginia Retirement System along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the following table.

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
		Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age **VRS:** Age 65.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Age 60 with at least five years (60 months) of creditable service. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component</u>:** Same as Plan 2. **<u>Defined Contribution Component</u>:** Not applicable.
<u>Eligibility</u>: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**<u>Eligibility</u>:** Same as Plan 1.	**<u>Eligibility</u>:** Same as Plan 1 and Plan 2.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the VLDP unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 15—Defined benefit pension plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Employees Covered by Benefit Terms – As of the June 30, 2018 and 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	2018	**2017**
Inactive members or their beneficiaries currently receiving benefits	98	92
Inactive Members:		
Vested	50	44
Nonvested	138	131
Active elsewhere in VRS	50	48
Total Inactive Members	238	223
Active members	290	292
Total	626	607

Contributions – The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Commission's contractually required contribution rate was 5.99% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Note 15—Defined benefit pension plan (continued)

Contributions to the pension plan from the Commission were $590,939 and $610,144 for the year ended June 30, 2020 and 2019, respectively.

Net Pension Liability (Asset) – The Commission's net pension liability (asset) reported for the fiscal year ended June 30, 2020 was measured as of June 30, 2019. The Total Pension Liability ("TPL") used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

The Commission's net pension liability reported for fiscal year ended June 30, 2019 was measured as of June 30, 2018. The Total Pension Liability ("TPL") used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions – The TPL for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2018 and June 30, 2017, respectively, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019 and June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0% net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for U.S. GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Largest 10 – Non-Hazardous Duty:

Mortality rates: 20% of deaths are assumed to be service related.

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 15—Defined benefit pension plan (continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality rates: 15% of deaths are assumed to be service related.

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Long-Term Expected Rate of Return – The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	88.00%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
Mutli-Asset Public Strategies	6.00%	3.52%	0.21%
Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.63%

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Note 15—Defined benefit pension plan (continued)

Discount Rate – The discount rate used to measure the TPL was 6.75%. The projection of cash flows, used to determine the discount rate, assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teach employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019, on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the TPL.

Changes in Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at June 30, 2018	$ 40,110,415	$ 42,970,999	$ (2,860,584)
Changes for the year:			
Service cost	1,547,473	-	1,547,473
Interest	2,746,548	-	2,746,548
Changes of assumptions	1,264,806	-	1,264,806
Difference between expected and actual	(696,895)	-	(696,895)
Contributions - employer	-	610,241	(610,241)
Contributions - employee	-	859,548	(859,548)
Net investment income	-	2,882,188	(2,882,188)
Benefit payments, including refunds of employee contributions	(1,748,033)	(1,748,033)	-
Administrative expense	-	(28,048)	28,048
Other	-	(1,818)	1,818
Net changes	3,113,899	2,574,078	539,821
Balances at June 30, 2019	$ 43,224,314	$ 45,545,077	$ (2,320,763)

Note 15—Defined benefit pension plan (continued)

Changes in Net Pension Liability (Asset) (continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at June 30, 2017	$ 37,535,599	$ 39,832,154	$ (2,296,555)
Changes for the year:			
Service cost	1,549,494	-	1,549,494
Interest	2,572,874	-	2,572,874
Difference between expected and actual	12,952	-	12,952
Contributions - employer	-	943,256	(943,256)
Contributions - employee	-	820,005	(820,005)
Net investment income	-	2,963,678	(2,963,678)
Benefit payments, including refunds of employee contributions	(1,560,504)	(1,560,504)	-
Administrative expense	-	(24,923)	24,923
Other	-	(2,667)	2,667
Net changes	2,574,816	3,138,845	(564,029)
Balances at June 30, 2018	$ 40,110,415	$ 42,970,999	$ (2,860,584)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net position liability (asset) would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 5.75%	Current Rate 6.75%	1% Increase 7.75%
June 30, 2019 Plan's net pension liability (asset)	$ 3,068,510	$ (2,320,763)	$ (6,618,776)

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
June 30, 2018 Plan's net pension liability (asset)	$ 2,433,723	$ (2,860,584)	$ (7,261,758)

Note 15—Defined benefit pension plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the years ended June 30, 2020 and 2019, the Commission recognized pension expense (benefit) of $392,974 and $(265,554), respectively. At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	$ 590,939	$ -
Differences between expected and actual experience	5,796	605,068
Changes of assumptions	900,309	125,492
Net difference between projected and actual earnings on plan investments	-	402,634
Total	$ 1,497,044	$ 1,133,194

$590,939 reported as deferred outflows of resources related to pensions resulting from the commissions contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year end June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions as of June 30, 2020 will be recognized in pension expense as follows:

2021	$ (97,915)
2022	(218,234)
2023	66,062
2024	22,998
2025	-
	$ (227,089)

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	$ 610,144	$ -
Difference between expected and actual experience	9,374	310,821
Changes of assumptions	-	286,381
Net difference between projected and actual earnings on plan investments	-	396,349
Total	$ 619,518	$ 993,551

$610,144 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in fiscal year-end June 30, 2020.

Note 15—Defined benefit pension plan (continued)

Retirement Plan of the Transportation District Commission of Hampton Roads

Plan Description – Effective January 1, 2012, the Transit Employees of Tidewater Disability and Retirement Allowance Plan and Retirement Plan of Hampton Roads Transportation District Commission merged to become Retirement Plan of the Transportation District Commission of Hampton Roads (“Plan”). The Plan represents Transit Management Company, a wholly owned subsidiary of the Commission, which covers principally those employees subject to the Commission's union bargaining agreement between the Commission and the Local Union 1177 (“Union”), Norfolk, Virginia, of the Amalgamated Transit Union, dated July 1, 2010. The Plan is a single employer defined benefit plan administered by the Transportation District Commission of Hampton Roads. The Plan provides pensions for all collectively bargained employees of HRT.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported to the Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Employees Covered by Benefit Terms – As of the December 31, 2019 and 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	2019	2018
Inactive members or their beneficiaries currently receiving benefits	338	325
Inactive members entitled to but not yet receiving benefits	29	43
Active members	593	580
Total	960	948

Benefits Provided – All collectively bargained employees are eligible to participate in the Plan upon completion of 60 consecutive days of service. Benefits vest after completing ten years of service. Employees who retire after age 65 with 10 years of service, age 61 where the sum of age and years of service is greater than or equal to 85, or any age with at least 25 years of service are entitled to a retirement benefit. The monthly benefit is determined using a formula of 1.6% of Final Average Monthly Compensation (the employees’ highest five-year average monthly compensation, plus any accumulated and unused sick leave at retirement) times years of service. Compensation is limited to $270,000 per year, per IRC Section 401(a)(17).

Contributions – The Plan is subject to minimum funding standards set out in the collective bargaining agreement. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees contribute 3% of compensation to fund the plan with a minimum contribution of $10. The Commission is required to contribute the remainder of the actuarially determined rate, unless that rate falls outside of the predefined corridor of 7.5% to 9.5% of total compensation with a minimum contribution of $40. To the extent the value of unused sick leave is included in the compensation used to determine retirement benefits, the employer contributes an amount equal to the combined employer and employee contribution rate on that value to the Plan. For the fiscal year ended June 30, 2019, the actuarially determined total rate was 10.50% of annual pay, and there were no changes in plan provisions from the previous measurement date. For the fiscal year ended June 30, 2020, there were no changes in plan provisions from the previous measurement date. Contributions to the pension plan from the Commission were $2,267,251 and $2,293,699 for the years ended June 30, 2020 and 2019, respectively.

Note 15—Defined benefit pension plan (continued)

Discount Rate – The discount rate used to measure the Total Pension Liability (TPL) was 7.00% as of December 31, 2019 and December 31, 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are included. Projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability – The Commission's net pension liability was measured as of December 31, 2019. The TPL used to calculate the net pension liability was determined by an actuarial valuation performed as of January 1, 2019, using updated actuarial assumptions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following represents the Net Pension Liability ("NPL") of the Plan as of December 31, 2019 using the discount rate of 7.00%, as well as what the Plan's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
December 31, 2019 Plan's net pension liability (asset)	$ 13,308,593	$ 5,047,157	$ (1,945,279)
December 31, 2018 Plan's net pension liability	$ 20,496,380	$ 12,438,865	$ 5,617,652

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Aggregate payroll increases	3.50%
Individual salary increases	7.75% for the first five years after date of hire, 3.75% thereafter
Investment rate of return	7.00%, net of pension plan investment expense

Pre-retirement mortality rates were based on the RP-2014 Blue Collar Employee Mortality Table, set forward two years and projected generationally using Scale MP2016 from 2014. Mortality rates for nondisabled pensioners were based on the RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years and projected generationally using Scale MP2016 from 2014. Mortality rates for disabled pensioners were based on RP-2014 Disabled Retiree Mortality Table, set forward two years and projected generationally using Scale MP2016 from 2014.

The underlying tables with generational projection to the ages of the participants as of the measurement date reasonably reflect the mortality experience of the Plan as of the measurement date. These mortality tables were then adjusted to future years using the generational projection to anticipate mortality improvement between the measurement date and those years.

The mortality rates were based on historical and current demographic data, estimated future experience, and professional judgment. As part of the analysis, a comparison was made between the actual number of deaths and the projected number of deaths based on the prior years' assumption over the most recent five years.

Note 15—Defined benefit pension plan (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2019 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Real Rate of Return
Domestic equity	35.00%	6.28%
International developed markets equity	8.00%	6.91%
Emerging markets equity	2.00%	8.83%
Core fixed income	25.00%	1.13%
High yield fixed income	5.00%	3.58%
Emerging market debt	5.00%	4.07%
Global fixed income	5.00%	1.13%
Alternative investments	10.00%	3.25%
Real estate	5.00%	4.41%
	100%	

As of December 31, 2019, the money-weighted rate of return was 19.21%.

Changes in Net Pension Liability

Asset Class	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Long-Term Net Position Liability (a) - (b)
Balances at December 31, 2018	$ 74,757,741	$ 62,318,876	$ 12,438,865
Changes for the year:			
Service cost	2,091,589	-	2,091,589
Interest	5,213,926	-	5,213,926
Contributions - employer	-	2,197,312	(2,197,312)
Contributions - employee	-	816,780	(816,780)
Net investment income	-	11,797,747	(11,797,747)
Benefit payments, net of refunds	(4,729,343)	(4,729,343)	-
Administrative expense	-	(132,712)	132,712
Other changes	-	18,096	(18,096)
Net changes	2,576,172	9,967,880	(7,391,708)
Balances at December 31, 2019	$ 77,333,913	$ 72,286,756	$ 5,047,157

Note 15—Defined benefit pension plan (continued)

Asset Class	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Long-Term Net Position Liability (a) - (b)
Balances at December 31, 2017	$ 75,113,541	$ 67,067,360	$ 8,046,181
Changes for the year:			
Service cost	2,170,056	-	2,170,056
Interest	5,256,473	-	5,256,473
Contributions - employer	-	2,243,867	(2,243,867)
Contributions - employee	-	860,429	(860,429)
Difference between expected and actual experience	(3,400,081)	-	(3,400,081)
Net investment income	-	(3,342,739)	3,342,739
Benefit payments, net of refunds	(4,382,248)	(4,382,248)	-
Administrative expense	-	(130,789)	130,789
Other changes	-	2,996	(2,996)
Net changes	(355,800)	(4,748,484)	4,392,684
Balances at December 31, 2018	$ 74,757,741	$ 62,318,876	$ 12,438,865

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the years ended June 30, 2020 and 2019, the Commission recognized pension expense of $2,574,867 and $3,445,955, respectively. At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 148,358	$ 1,901,585
Employer contributions made subsequent to measurement date	2,267,251	-
Change in assumptions	352,553	-
Net difference between projected and actual earnings on plan investments	-	3,004,265
	$ 2,768,162	$ 4,905,850

$2,267,251 reported as deferred outflows of resources related to pensions resulting from the Commissions contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2020 will be recognized in pension expense as follows:

2021	$ (1,187,572)
2022	(1,417,429)
2023	(300,044)
2024	(1,499,894)
	$ (4,404,939)

Note 15—Defined benefit pension plan (continued)

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 282,016	$ 2,689,850
Employer contributions made subsequent to measurement date	2,293,699	-
Change in assumptions	1,205,236	-
Net difference between projected and actual earnings on plan investments	4,566,922	-
Total	$ 8,347,873	$ 2,689,850

$2,293,699 reported as deferred outflows of resources related to pensions resulting from the Commissions contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in fiscal year ended June 30, 2020.

Note 16—Other postemployment benefit programs

Group Life Insurance

Plan Description – All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This plan is administered by VRS, along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the Optional Group Life Insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The specific information for GLI Program OPEB, including eligibility, coverage and benefits is set out in the table below:

Eligible Employees
The GLI Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts
The benefits payable under the GLI Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in Benefit Amounts
The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)
For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the GLI Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions – The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution: however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the years ended June 30, 2019 and June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the Commission were $91,805 and $90,044 for the year ended June 30, 2020 and 2019, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB – At June 30, 2020 and 2019, the Commission reported a liability of $1,437,365 and $1,377,000, respectively, for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2018. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the years ended June 30, 2019 and 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019 and 2018, the Commission's proportion was 0.08833% and 0.09071%, respectively.

For the year ended June 30, 2020 and 2019, the Commission recognized GLI OPEB expense of $17,658 and $-0-, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Note 16—Other postemployment benefit programs (continued)

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95,593	$ 18,644
Net difference between projected and actual earnings on GLI OPEB program investments	-	29,525
Change in assumptions	90,747	43,343
Changes in proportion	-	74,087
Employer contributions subsequent to the measurement date	91,805	-
Total	$ 278,145	$ 165,599

$91,805 reported as deferred outflows of resources related to the GLI OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows for years ended:

FY 2021	$ (10,473)
FY 2022	(10,472)
FY 2023	2,033
FY 2024	13,446
FY 2025	19,943
Thereafter	6,264
	$ 20,741

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 67,000	$ 25,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	45,000
Change in assumptions	-	57,000
Employer contributions subsequent to the measurement date	90,044	-
Total	$ 157,044	$ 179,000

$90,044 reported as deferred outflows of resources related to the GLI OPEB resulting from the Commission's contributions subsequent to the measurement date was recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ended June 30, 2020.

Note 16—Other postemployment benefit programs (continued)

Disability program

Plan Description – All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee VLDP. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

The specific information for each plan and the eligibility for covered groups within each plan are described in the table below:

POLITICAL SUBDIVISION EMPLOYEE VLDP PLAN PROVISIONS
Eligible Employees The Political Subdivision Employee VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include: • Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.
Benefit Amounts The Political Subdivision Employee VLDP provides the following benefits for eligible employees: **Short-Term Disability** – • The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. • During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related of work-related disability. • Once the eligibility period is satisfied, employees are eligible for higher income replacement levels. **Long-Term Disability** – • The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. • Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Note 16—Other postemployment benefit programs (continued)

VLDP Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long term care services.

Contributions – The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the years ended June 30, 2019 and 2018 was 0.72% of covered employee compensation for employees in the VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Commission to the VLDP were $54,711 and $45,498 for the years ended June 30, 2020 and June 30, 2019, respectively.

VLDP *OPEB Liabilities,* VLDP *OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to* VLDP *OPEB* – At June 30, 2020 and 2019, the Commission reported a liability of $41,426 and $16,000, respectively, for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2019 and 2018, and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of June 30, 2017. The Commission's proportion of the Net VLDP OPEB Liability was based on the Commission's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2019 and 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019 and 2018, the Commission's proportion of the VRS Political Subdivision Employee VLDP was 2.04490% and 2.14917%, respectively.

For the year ended June 30, 2020 and 2019, the Commission recognized VRS Political Subdivision Employee VLDP OPEB expense of $48,525 and $37,000, respectively.

At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee VLDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 1,187	$ 1,585
Net difference between projected and actual earnings on VLDP OPEB program investments	142	-
Change in proportion	-	804
Differences between expected and actual experience	20,778	1,274
Employer contributions subsequent to the measurement date	54,711	-
Total	$ 76,818	$ 3,663

Note 16—Other postemployment benefit programs (continued)

$54,711 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the VLDP OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to the VLDP OPEB will also be recognized in the VLDP OPEB expense in future reporting periods as follows for years ending:

FY 2021	$	3,835
FY 2022		3,808
FY 2023		3,786
FY 2024		3,829
FY 2025		3,665
Thereafter		(479)
Total	$	18,444

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee VLDP OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Change in assumptions	$	-	$	2,000
Differences between expected and actual experience		-		2,000
Employer contributions subsequent to the measurement date		45,498		-
Total	$	45,498	$	4,000

$45,498 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Commission's contributions subsequent to the measurement date was recognized as a reduction of the VLDP OPEB Liability in the fiscal year ended June 30, 2020.

Actuarial Assumptions for Other Postemployment Benefits:

The total OPEB liability was based on an actuarial valuation as of June 30, 2018 and 2017, respectively, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019 and 2018.

Inflation 2.5%

Salary increases, including inflation – Locality – General employees 3.5% – 5.35%

Investment rate of return 7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for U.S. GAAP purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Note 16—Other postemployment benefit programs (continued)

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

Net OPEB Liability – The net OPEB liability (NOL) represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2019 and 2018, NOL amounts were as follows (amounts expressed in thousands):

	2020	2019
	Group Life Insurance OPEB Program	**Group Life Insurance OPEB Program**
Total GLI OPEB Liability ($ in thousands)	$ 3,390,238	$ 3,113,508
Plan Fiduciary Net Position	1,762,972	1,594,773
Employers' Net GLI OPEB Liability	$ 1,627,266	$ 1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%

	2020	2019
	Virginia Local Disability OPEB Program	**Virginia Local Disability OPEB Program**
Total VLDP OPEB Liability ($ in thousands)	$ 3,988,563	$ 1,588
Plan Fiduciary Net Position	1,962,744	816
Employers' Net VLDP OPEB Liability	$ 2,025,819	$ 772
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	49.21%	51.39%

The total OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the System's notes to financial statements and required supplementary information.

Note 16—Other postemployment benefit programs (continued)

Long-Term Expected Rate of Return –The long-term expected rate of return on the System's investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.61 %	1.91 %
Fixed Income	15.00 %	0.88 %	0.13 %
Credit Strategies	14.00 %	5.13 %	0.72 %
Real Assets	14.00 %	5.27 %	0.74 %
Private Equity	14.00 %	8.77 %	1.23 %
Multi-Asset Public Strategies	6.00 %	3.52 %	0.21 %
Private Investment Partnership	3.00 %	6.29 %	0.19 %
	100.00 %		5.13 %
Inflation			2.50 %
Expected arithmetic nominal return			7.63 %

**The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2018, the rate contributed by the entity for the OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 forward, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 16—Other postemployment benefit programs (continued)

Sensitivity of the Political Subdivision's Proportionate Share Net OPEB Liability to Changes in the Discount Rate – The following presents the Commission's proportionate share of the OPEB liability using the discount rate of 7.00%, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

Group Life Insurance	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
June 30, 2019 employer's proportionate share of the GLI Program Net OPEB Liability	$ 1,888,299	$ 1,437,365	$ 1,071,669

Group Life Insurance	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2018 employer's proportionate share of the GLI Program Net OPEB Liability	$ 1,838,000	$ 1,377,000	$ 1,034,000

VRS Political Subdivision VLDP	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
June 30, 2019 employer's proportionate share of the VLDP OPEB Liability	$ 47,640	$ 41,426	$ 35,992

VRS Political Subdivision VLDP	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
June 30, 2018 employer's proportionate share of the VLDP OPEB Liability	$ 19,000	$ 16,000	$ 14,000

Fiduciary Net Positions – Detailed information about the various VRS pension and OPEB programs' Fiduciary Net Positions are available in the separately issued VRS 2018 ACFR. A copy of the 2019 VRS ACFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 17—Contingencies

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 Uniform Guidance, 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.

The Commission continues to face economic impacts of the Coronavirus (COVID-19) pandemic, and will rely on continued aid from state and federal sources. As of June 30, 2020, the Commission had approximately $41 million in unspent Coronavirus Aid, Relief, and Economic Security (CARES) Act funding.

Note 18—Subsequent events

In March 2021, the federal government approved $1.9 trillion in funding from the American Rescue Plan Act (ARPA), of which the Commission was awarded $53.9 million.

In Summer 2021, the federal government approved $30.75 billion in funding from the Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) funding, of which the Commission was awarded $9.6 million.

REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30,

Virginia Retirement System

	* 2020	* 2019	* 2018	* 2017	* 2016
Total pension liability:					
Service cost	$ 1,547,473	$ 1,549,494	$ 1,722,982	$ 1,666,613	$ 1,645,945
Interest	2,746,548	2,572,874	2,458,439	2,292,254	2,132,196
Changes of assumptions	1,264,806	-	(608,159)	-	-
Differences between expected and actual experience	(696,895)	12,952	(489,591)	(273,907)	(264,067)
Benefit payments, including refunds of employee contributions	(1,748,033)	(1,560,504)	(1,337,254)	(1,284,530)	(1,170,235)
Net change in total pension liability	3,113,899	2,574,816	1,746,417	2,400,430	2,343,839
Total pension liability, beginning of year	40,110,415	37,535,599	35,789,182	33,388,752	31,044,923
Total pension liability, end of year	43,224,314	40,110,415	37,535,599	35,789,182	33,388,762
Plan fiduciary net position:					
Contributions - employer	610,241	943,256	979,749	977,368	934,294
Contributions - employee	859,548	820,005	919,527	881,024	789,916
Net investment income	2,882,188	2,963,678	4,332,554	617,701	1,483,386
Benefit payments, including refunds of employee contributions	(1,748,033)	(1,560,504)	(1,337,254)	(1,284,530)	(1,170,235)
Administrative expense	(28,048)	(24,923)	(24,013)	(20,514)	(19,456)
Other	(1,818)	(2,667)	(3,893)	(256)	(316)
Net change in plan fiduciary net position	2,574,078	3,138,845	4,866,670	1,170,793	2,017,589
Plan fiduciary net position, beginning of year	42,970,999	39,832,154	34,965,484	33,794,691	31,777,102
Plan fiduciary net position, end of year	45,545,077	42,970,999	39,832,154	34,965,484	33,794,691
Net pension liability (asset), end of year	$ (2,320,763)	$ (2,860,584)	$ (2,296,555)	$ 823,698	$ (405,929)
Plan fiduciary net position as a percentage of the total pension liability	105%	107%	106%	98%	101%
Covered payroll	$ 17,270,832	$ 17,227,619	$ 17,401,786	$ 16,989,819	$ 15,945,689
Net pension liability (asset) as a percentage of covered payroll	-13%	-17%	-13%	5%	-3%

Note: Information prior to 2015 measurement date is not readily available
* The measurement date is one year prior.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

YEARS ENDED JUNE 30,

Retirement Plan of the Transportation District Commission

	* 2020	* 2019	* 2018	* 2017	* 2016
Total pension liability:					
Service cost	$ 2,091,589	$ 2,170,056	$ 2,096,672	$ 1,942,521	$ 1,937,014
Interest	5,213,926	5,256,473	5,047,386	4,716,744	4,465,478
Differences between expected and actual experience	-	(3,400,081)	-	682,990	(104,384)
Changes in assumptions	-	-	-	1,260,323	3,109,006
Benefit payments, including refunds of employee contributions	(4,729,343)	(4,382,248)	(4,078,731)	(3,681,036)	(3,574,555)
Net change in total pension liability	2,576,172	(355,800)	3,065,327	4,921,542	5,832,559
Total pension liability, beginning of year	74,757,741	75,113,541	72,048,214	67,126,672	61,294,113
Total pension liability, end of year	77,333,913	74,757,741	75,113,541	72,048,214	67,126,672
Plan fiduciary net position:					
Contributions - employer	2,197,312	2,243,867	2,333,012	2,184,142	2,019,707
Contributions - employee	816,780	860,429	877,097	894,542	803,688
Net investment income	11,797,747	(3,342,739)	8,188,123	4,817,005	(674,158)
Benefit payments, including refunds of employee contributions	(4,729,343)	(4,382,248)	(4,078,731)	(3,681,036)	(3,574,555)
Administrative expense	(132,712)	(130,789)	(112,884)	(128,321)	(146,392)
Other	18,096	2,996	-	(329,075)	-
Net change in plan fiduciary net position	9,967,880	(4,748,484)	7,206,617	3,757,257	(1,571,710)
Plan fiduciary net position, beginning of year	62,318,876	67,067,360	59,860,743	56,103,486	57,675,196
Plan fiduciary net position, end of year	72,286,756	62,318,876	67,067,360	59,860,743	56,103,486
Net pension liability, end of year	$ 5,047,157	$ 12,438,865	$ 8,046,181	$ 12,187,471	$ 11,023,186
Plan fiduciary net position as a percentage of the total pension liability	93%	83%	89%	83%	84%
Covered payroll	$ 29,394,356	$ 29,193,068	$ 29,517,820	$ 28,172,411	$ 25,916,719
Net pension liability as a percentage of covered payroll	17%	43%	27%	43%	43%

Note: Information prior to 2015 measurement date is not readily available

* The measurement date is six months prior.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEARS ENDED JUNE 30,

Date		Actuarially Determined Contribution		Contributions in Relation to Actuarially Determined Contribution		Contribution Deficiency (Excess)		Employer's Covered Payroll	Contributions as a % of Covered Payroll
Virginia Retirement System									
2020	$	590,939	$	590,939	$	-	$	17,642,552	3.35%
2019	$	610,144	$	610,144	$	-	$	17,270,832	3.53%
2018	$	943,032	$	943,032	$	-	$	17,227,619	5.47%
2017	$	974,399	$	974,399	$	-	$	17,401,786	5.60%
2016	$	977,271	$	977,271	$	-	$	16,989,819	5.75%
2015	$	1,029,823	$	1,029,823	$	-	$	15,945,689	6.46%

*The schedule is intended to show information for 10 years. Information prior to 2015 is not readily available. Additional years will be included as they become available.

Date		Actuarially Determined Contribution		Contributions in Relation to Actuarially Determined Contribution		Contribution Deficiency (Excess)		Employer's Covered Payroll	Contributions as a % of Covered Payroll
Retirement Plan of Transportation District Commission									
2020	$	2,267,251	$	2,267,251	$	-	$	29,394,356	7.71%
2019	$	2,293,699	$	2,293,699	$	-	$	29,193,068	7.86%
2018	$	2,131,684	$	2,131,684	$	-	$	29,517,820	7.22%
2017	$	2,333,012	$	2,333,012	$	-	$	28,172,411	8.28%
2016	$	2,078,056	$	2,078,056	$	-	$	25,916,719	8.02%
2015	$	1,950,314	$	1,950,314	$	-	$	27,075,414	7.20%

*The schedule is intended to show information for 10 years. Information prior to 2015 is not readily available. Additional years will be included as they become available.

Date		Actuarially Determined Contribution		Contributions in Relation to Actuarially Determined Contribution		Contribution Deficiency (Excess)		Employer's Covered Payroll	Contributions as a % of Covered Payroll
Group Life Insurance Program									
2020	$	91,805	$	91,805	$	-	$	17,660,146	0.52%
2019	$	90,044	$	90,044	$	-	$	17,316,059	0.52%
2018	$	89,584	$	89,584	$	-	$	17,227,619	0.52%
2017	$	90,599	$	90,599	$	-	$	17,422,839	0.52%
2016	$	81,644	$	81,644	$	-	$	17,009,149	0.48%
2015	$	76,653	$	76,653	$	-	$	15,969,374	0.48%
2014	$	74,219	$	74,219	$	-	$	15,462,239	0.48%
2013	$	75,274	$	75,274	$	-	$	15,682,072	0.48%
2012	$	40,916	$	40,916	$	-	$	14,612,726	0.28%
2011	$	33,175	$	33,175	$	-	$	11,848,173	0.28%
Virginia Local Disability Program									
2020	$	54,711	$	54,711	$	-	$	7,602,427	0.72%
2019	$	45,498	$	45,498	$	-	$	6,319,235	0.72%
2018	$	31,131	$	31,131	$	-	$	5,188,540	0.60%
2017	$	24,364	$	24,364	$	-	$	4,060,662	0.60%
2016	$	19,233	$	19,233	$	-	$	3,205,499	0.60%
2015	$	11,719	$	11,719	$	-	$	1,953,239	0.60%
2014	$	1,355	$	1,355	$	-	$	225,819	0.60%

*The schedule is intended to show information for 10 years. Information prior to 2014 is not readily available. Additional years will be included as they become available.

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY

YEARS ENDED JUNE 30,

Date	Employer's Proportion of Net GLI OPEB Liability		Employer's Proportionate Share of Net GLI OPEB Liability		Employer's Covered Payroll	Employer's Proportionate Share of Net GLI OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
Group Life Insurance Program							
2020	0.08833%	$	1,437,000	$	17,316,059	0.083%	52.00%
2019	0.09071%	$	1,377,000	$	17,227,619	0.080%	51.22%
2018	0.09446%	$	1,421,000	$	17,422,839	0.082%	48.86%
2017	0.09465%	$	1,656,000	$	17,009,149	0.095%	41.18%
Virginia Local Disability Program							
2020	2.04490%	$	41,426	$	6,319,235	0.0066%	49.19%
2019	2.14917%	$	16,000	$	5,188,540	0.0031%	51.39%
2018	2.21134%	$	12,000	$	4,060,662	0.0030%	38.40%
2017	2.59536%	$	10,000	$	3,205,499	0.0031%	0.00%

*The schedule is intended to show information for 10 years. Information prior to 2017 is not readily available. Additional years will be included as they become available.

**Per GAAP, net OPEB liability is reported using the measurement date, which is one year prior to the reporting date.

Virginia Retirement Plan

Changes of Benefit Terms – There have been no actuarially significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2018 and 2017 are not material.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Virginia Retirement Plan (continued)

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Retirement Plan of the Transportation District Commission

Valuation date	Actuarially determined contribution rates are calculated as of January 1st 18 months prior to the beginning of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Open level dollar for remaining unfunded liability without benefit improvements
Remaining amortization period	30 years, with benefit improvements over 5 years closed
Asset valuation method	The market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a four-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 20% of the market value of assets.

Actuarial assumptions:

Investment rate of return: 6.75%, net of pension plan investment expense, including inflation.

The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the Plan's target asset allocation.

Aggregate payroll increases: 3.50%

Individual salary increases: 7.75% for the first five years after date of hire, 3.75% thereafter

Retirement rates:

Age	Retirement Probability
50-55	7%
56-59	4%
60	10%
61	15%
62-63	40%
64	30%
65 & older	100%

Mortality rates:

RP-2014 Blue Collar Employee Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for pre-retirement lives.

RP-2014 Blue Collar Healthy Annuitant Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for nondisabled pensioner lives.

RP-2014 Disabled Retiree Mortality Table with sex-distinct rates, set forward two years and projected generationally with Scale MP2016 from 2014 for disabled pensioner lives.

Group Life Insurance

Changes of Benefit Terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, postretirement healthy, and disabled)	Updated to a more current mortality table – RP2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Virginia Local Disability Program

Changes of Benefit Terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

COMPLIANCE SECTION

Report of Independent Auditor 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*

To the Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to the 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, the financial statements of the Transportation District Commission of Hampton Roads (the "Commission"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 24, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses of significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's 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 financial statements. 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* or *Specifications for Audits of Authorities, Boards, and Commissions.*

Commission’s Response to the Finding

The Commission’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Virginia Beach, Virginia
February 24, 2022

Report of Independent Auditor on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Commissioners
Transportation District Commission of Hampton Roads
Hampton, Virginia

Report on Compliance for the Major Federal Program

We have audited the Transportation District Commission of Hampton Roads' (the "Commission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2020. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination on the Commission's compliance.

Opinion on the Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Commission's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Virginia Beach, Virginia
February 24, 2022

TRANSPORTATION DISTRICT COMMISSION OF HAMPTON ROADS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number		Year	Federal Catalog Number	Total Expenditures
Department of Transportation				
Direct Payments				
Federal Transit Federal Railroad Administration Grant:				
VA-2019-004	OLI Lifesaver Grant Federal Railroad Admin Grant	2019	20.301	$ 19,429
	Total Federal Transit Administration Capital Improvement Grants			19,429
Highway Planning and Construction Grant:				
VA-70-0001	Ferryboat FHWA Flex	2015	20.205	16,315
	Subtotal Highway Planning and Construction Cluster			16,315
Federal Transit Administration Capital Improvement Grants:				
VA-04-0058	FY12 SGR-Paratransit Vans and TAM	2014	20.500	61,857
	Total Federal Transit Administration Capital Improvement Grants			61,857
Federal Transit Administration Formula Grants:				
VA-90-X410	FY14 5307 Partial	2014	20.507	475,233
VA-90-X430	FY 2015 5307 Partial	2015	20.507	202,224
VA-95-X118	Bus Refurbishment and EMS Project	2014	20.507	58,774
VA-95-X189	5337, 5307, 5339, STP and CMAQ Grant	2018	20.507	3,498,808
VA-95-X141	VBTES RSTP	2015	20.507	574,652
VA-95-X167	FY15&16 Partial 5307 and CMAQ grant-PM and TRAFFIX	2016	20.507	162,900
VA-95-X178	5337, 5307, 5339, STP and CMAQ Grant	2017	20.507	556,290
VA-90-X550	HRT's 5339, 5337,5307, STP and CMAQ Grant	2019	20.507	900,629
VA-95-X192	HRT FFY18 STIP and CMAQ	2019	20.507	731,852
VA-90-X533	5337, 5307, 5339, STP and CMAQ Grant	2017	20.507	1,020,783
VA-90-X576	FFY 2107, FFY 2019, and FFY 2019 Section 5307 Capital Grant	2020	20.507	2,516,051
VA-90-X587	5307 CARES ACT Operating Grant	2020	20.507	20,626,873
VA-90-X546	FY14 Passenger Ferry Discretionary Grant	2018	20.507	1,867,050
VA-90-X569	FFY2019 Section Capital Cost of Contracting, ADA Complimentary Para	2019	20.507	921,723
	Total Federal Transit Administration Formula Grants			34,113,842
Passed through from Department of Rail and Public Transportation				
State of Good Repair Grants Program:				
VA-54-0006	HRT FFY 18 STP and CMAQ	2019	20.525	503,571
VA-54-X003	FY 2017 Capital Cost of Contracting and Preventive Maintenance	2018	20.525	12,844
	Total State of Good Repair Grants Program			516,415
Bus Facilities Formula Program:				
VA-34-0015	5339 Bus Discretionary Grant	2020	20.526	2,165,096
VA-34-0019	HRT 5339, 5337, 5307, STP and SMAQ Grant	2018	20.526	1,410,434
VA-34-0023	FY17&18 Section 5339 Low No Discretionary Grant	2019	20.526	289
VA-34-0011	FY15&16 Partial 5307 and CMAQ grant-PM and TRAFFIX	2017	20.526	300,330
	Total Bus Facilities Formula Program			3,876,149
	Subtotal - Federal Transit Cluster			38,568,263
Federal Transit Administration Job Access and Reverse Commute Program:				
VA-37-X014	Job Access/Reverse Commute	2011	20.516	75,400
	Total Federal Transit Administration Job Access and Reverse Commute Program			75,400
Federal Transit Administration New Freedom Program:				
VA-57-X001	New Freedom Grant	2011	20.521	23,717
	Total Federal Transit Administration New Freedom Program			23,717
	Subtotal - Transit Services Program Cluster			99,117
	Total Department of Transportation			$ 38,703,124

Note 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.

Note 2—Basis of accounting

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

Note 3—Indirect cost rate

The Commission does not elect to use a 10% de minimis indirect cost rate allowed under Section 2 CFR 200.331(a)(4).

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**

2. Significant deficiencies in internal control disclosed by the audit of the financial statements**:** **None reported**

3. Material weaknesses in internal control disclosed by the audit of the financial statements: **Yes, Finding 2020-001**

4. Noncompliance, which is material to the financial statements: **No**

5. Significant deficiencies in internal control over major programs: **None reported**

6. Material weaknesses in internal control over major programs: **No**

7. The type of report issued on compliance for major programs: **Unmodified opinion**

8. Any audit findings which are required to be reported under Uniform Grant Guidance: **No**

9. The programs tested as major programs were:

CFDA Number	Name of Federal Program or Cluster
20.500-CL	Federal Transit Cluster

10. Dollar threshold used to distinguish between type A and type B programs: **$1,161,093**

11. Transportation District Commission of Hampton Roads qualified as a low-risk auditee under Uniform Grant Guidance: **No**

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Finding: 2020-001

Type of Finding: Material weakness over financial reporting

Criteria:
In order to prepare financial statements in accordance with U.S. GAAP, accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenses to ensure an accurate presentation of the financial position and activity of the Commission for the fiscal year just ended.

Condition:
Yearly, the Commission's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly Comprehensive Annual Financial Report produced within the Finance Department. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the year-end closing and financial statement audit process, we identified misstatements which were considered material to the financial statement presentation resulting in the adjustment of the Commission's financial records. Specifically, examples of the adjustments and approximated amounts recorded included:

- During our testing of the cash reconciliation, we determined that a reconciling item of $1.6M should have been corrected before year end.

- During our testing of pension and other post-employment benefits (OPEB), we determined that $6.2M of deferred outflows and inflows of resources were not properly recorded.

- During our testing of journal entries, we identified a $6.6M accrual entry to grant revenues and expenses that should have been reversed before year end when it was entered into the project module.

- During the preparation of the financial statements, we determined that beginning net position did not rollforward by $0.7M due to the accounting and account classifications of the insurance reserves.

Cause:
During the second quarter of fiscal year 2020, the Commission implemented a new general ledger accounting system. Significant issues stemming from the implementation of an unstable system, coupled with staff turnover and lack of staff resulted in a lack of technical critical mass to analyze the myriad of transactions the Commission enters into yearly, curtailing the Commission's ability to provide auditable and timely financial records.

Effect:
The Commission's assets and deferred outflows of resources were understated by $1.6M, liabilities and deferred inflows of resources were understated by $5.6M, net position was overstated by $4.0M, revenues were overstated by $6.6M, expenses were overstated by $3.3M and the change in net position was overstated by $3.3M.

Auditor's Recommendation:
We recommend the Commission address this people-centric need by considering the identification, hiring, and retaining of experienced accountants as a mission-critical, long-term objective. In the current environment there is an ongoing struggle to fill vacancies with candidates possessing the skill sets needed for a fully-functioning financial accounting and reporting operation. We cannot stress enough the need for the Commission to identify, hire, and retain experienced governmental accountants.

Management's Response:
We concur with the findings and recommendation noted above. HRT has implemented procedures to prevent the misstatements. In relation to the $6.2M HRT will be adding additional accounts in order to track this adjustment. The $6.6M is no longer required due to the change in the financial software.

C. Findings and Questioned Costs Relating to Federal Awards:

None reported.

D. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants:

None reported.

E. Status of Prior Year Findings

Finding 2019-001 – Significant deficiency in financial reporting

Repeat finding included within 2020-001