HAMPTON ROADS PLANNING DISTRICT COMMISSION

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2016

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

HAMPTON ROADS PLANNING DISTRICT COMMISSION

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INDEPENDENT AUDITOR'S REPORT

Honorable Commission Board Members
Hampton Roads Planning District Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Hampton Roads Planning District Commission (Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require 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 Commission'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 Commission'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Commission, as of June 30, 2016, and the respective changes in financial position for the year 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 the Management's Discussion and Analysis and the required supplementary information on pages 4-9 and 45-47, respectively, 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 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 audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016 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 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 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.

PBMares, LLP

Harrisonburg, Virginia
October 13, 2016

Hampton Roads Planning District Commission

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Hampton Roads Planning District Commission's (Commission) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Commission for the year ended June 30, 2016. The information contained in this MD&A should be considered in conjunction with the financial statements and various historic summaries of activities and financial performance included in the basic financial statements included in this audit.

In the fall of 2008, the Commission was reorganized to better reflect the efforts of the transportation staff in performing the planning, technical, and administrative duties of the regional Metropolitan Planning Organization in accordance with regulations as determined by the U.S. Department of Transportation and the Virginia Department of Transportation. These duties were organized into a new and separate function entitled Hampton Roads Transportation Planning Organization (HRTPO). This new function has three memorandums of understanding between the HRTPO and the Commission. The first indicates that the Commission "shall provide the planning and administrative staff to the HRTPO" and all duties thereof. The second indicates that the HRTPO "desires that the Commission serve as fiscal agent for the HRTPO" and all duties thereof. In this capacity, the Financial Statements of the Hampton Roads Planning District Commission includes all the activities involved in administering the financial aspects of the Hampton Roads Transportation Planning Organization.

The Financial Section of this report has three components – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include both government-wide and fund financial statements and the notes to the financial statements. Government-wide and fund financial statements categorize primary activities as either governmental or business-type. All of the Commission's operations are considered to be governmental because the sources of funding include contributions from member jurisdictions and federal and state grants.

The government-wide and fund financial statements are distinguished as follows:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status.

- The remaining statements are governmental fund financial statements which are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on current financial resources and the balance of financial resources available at the end of the fiscal year. Since a governmental fund's focus is narrower than that of the government-wide financial statements a reconciliation between the statements is provided.

As required, the following tables present a summary of the long-term financial condition and operations of the Commission for the years ended June 30, 2016 and June 30, 2015. The *Summary Statements of Net Position* include the current assets, investments in capital assets, current and noncurrent liabilities, and deferred outflows and inflows of resources of the Commission. The *Summary Statements of Revenues, Expenses and Changes in Net Position* contain all of the years' revenues and expenses. The *Summary Statements of Changes in Net Position* further delineate the areas of fiduciary responsibility within the net position category.

The following table summarizes the Commission’s Statements of Net Position:

Summary Statements of Net Position
June 30, 2016 and 2015

	2016	2015	Increase (Decrease)	% Change
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	**$ 6,031,772**	$ 5,127,516	$ 904,256	17.64%
Capital assets, net of accumulated depreciation	**1,221,000**	1,347,737	(126,737)	-9.40%
Other assets - investments	**-**	675,000	(675,000)	-100.00%
Deferred outflows of resources - pension plan	**408,882**	258,102	150,780	58.42%
Total assets and deferred outflows of resources	**7,661,654**	7,408,355	253,299	3.42%
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities	**680,656**	1,171,516	(490,860)	-41.90%
Noncurrent liabilities	**4,163,182**	2,941,847	1,221,335	41.52%
Deferred inflows of resources - pension plan	**367,452**	836,829	(469,377)	-56.09%
Total liabilities and deferred inflows of resources	**5,211,290**	4,950,192	261,098	5.27%
NET POSITION				
Net investment in capital assets	**1,221,000**	1,347,737	(126,737)	-9.40%
Unresticted	**1,229,364**	1,576,200	(346,836)	-22.00%
Net position	**$ 2,450,364**	$ 2,923,937	$ (473,573)	-16.20%

The following table provides a summary of the Statement of Revenues, Expenses and Changes in Net Position:

Summary Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015	Increase (Decrease)	% Change
Program revenues				
Local contributions	**$ 3,552,821**	$ 3,572,374	$ (19,553)	-0.55%
Federal pass-through	**3,040,944**	4,339,893	(1,298,949)	-29.93%
Commonwealth	**451,842**	444,540	7,302	1.64%
Total operating revenues	**7,045,607**	8,356,807	(1,311,200)	-15.69%
Operating expenses				
Indirect - general and administrative	**1,534,782**	518,746	1,016,036	197.05%
Personnel	**3,600,083**	4,222,686	(622,603)	-14.74%
Consultants	**1,613,209**	1,629,520	(16,311)	-1.00%
Transporation pass-through services	**513,739**	570,609	(56,870)	-9.97%
Housing and Emergency Management pass-through	**390,673**	821,550	(430,877)	-52.45%
Total operating expenses	**7,652,486**	7,763,111	(110,625)	-1.43%
Operating income (loss)	**(606,879)**	593,696	(1,200,575)	-202.22%
Miscellaneous	**115,612**	164,049	(48,437)	-29.53%
Use of money	**17,694**	10,136	7,558	74.57%
Change in net position	**$ (473,573)**	$ 767,881	$ (1,241,454)	-161.67%

The following table provides a summary of the Commission's net position:

Summary Statements of Net Position
June 30, 2016 and 2015

	2016	2015	Increase (Decrease)	% Change
Net position				
Net investment in capital assets	**$ 1,221,000**	$ 1,347,737	$ (126,737)	-9.40%
Unrestricted	**1,229,364**	1,576,200	(346,836)	-22.00%
Net position	**$ 2,450,364**	$ 2,923,937	$ (473,573)	-16.20%

Financial Highlights

Statement of Net Position

This statement reports all short-term and long-term activity of the Commission, including the long-term estimates related to other postemployment benefits and net pension liability as determined by third-party actuaries. According to this statement, the Commission's Net Position decreased by $473,573, as disclosed on the Summary Statements of Changes in Net Position.

In order to conform with Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, the Commission must record net pension liabilities. These liabilities are primarily long-term liabilities, based on actuarial studies of the activity in the Virginia Retirement System. Therefore, actual results could differ substantially. It is important to note and recognize that the ultimate settlement of these liabilities will be paid primarily with future Commission resources.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues decreased approximately $1.3 million or 15.70% due to decreased activity in the Transportation and Homeland Security programs (UASI & MMRS). This decrease does not impact the operations of the Commission as it is mainly pass-through funding.

Operating expenses remained fairly constant decreasing approximately $0.1 million.

The basic financial statements of the Commission for the year ended June 30, 2016 indicate a decrease in net position of the Commission approximately $0.5 million (see the *Summary Statements of Net Position*). This decrease can be attributed to depreciation of capital assets of approximately $133,000, an increase in other postemployment benefit expense of approximately $307,000, offset by a reduction in pension expense and compensated absences of approximately $166,000 and budget planning that programmed the use of prior year unrestricted net position in the current year.

The following table provides the Commission's Balance Sheets of the Governmental Fund as of June 30, 2016 and 2015:

Balance Sheets – Governmental Fund
June 30, 2016 and 2015

	General Fund		Increase	%
	2016	2015	(Decrease)	Change
ASSETS				
Current Assets				
Cash and cash equivalents	**$ 3,798,367**	$ 2,261,744	$ 1,536,623	67.94%
Due from other governments	**1,212,295**	1,752,401	(540,106)	-30.82%
Prepaid items and deposits	**45,881**	41,557	4,324	10.40%
Investments	**975,229**	2,199,789	(1,224,560)	-55.67%
Total current assets	**$ 6,031,772**	$ 6,255,491	$ (223,719)	-3.58%
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	**$ 535,091**	$ 401,876	$ 133,215	33.15%
Contracts payable	**134,803**	291,189	(156,386)	-53.71%
Other current liabilities	**10,762**	6,023	4,739	78.68%
Total liabilities	**680,656**	699,088	(18,432)	-2.64%
Fund Balances				
Nonspendable	**45,881**	41,557	4,324	10.40%
Committed	**1,026,038**	1,146,838	(120,800)	-10.53%
Assigned	**1,300,638**	1,851,307	(550,669)	-29.74%
Unassigned	**2,978,559**	2,516,701	461,858	18.35%
Total fund balances	**5,351,116**	5,556,403	(205,287)	-3.69%
Total liabilities and fund balances	**$ 6,031,772**	$ 6,255,491	$ (223,719)	-3.58%

This impact on current Commission resources is more accurately reflected in the last report in this section: *Balance Sheet – Governmental Funds* (Fund Balance Report), as this report reflects the current resources and short term obligations of the Commission. This report is reported on a modified accrual basis.

The Committed amount of $1,026,038 reflects both program revenues received but not yet expended, as well as several reserve accounts that were established to ensure funding would be available for future expenditures for capital improvements, equipment failures, and etc.

The Assigned amount of $1,300,638 reflects those funds that have been set aside for other postemployment benefits ($1 million) and leave liabilities ($300,638). Management has determined that the full amount of this liability will never be realized, and only a portion of these funds should be set aside for short-term cash management purposes.

The Unassigned amount of $2,978,559 reflects funds available for future commission activities.

Requests for Information

This financial report is designed to provide our citizens with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to: Hampton Roads Planning District Commission, Chief Financial Officer, 723 Woodlake Drive, Chesapeake, Virginia 23320.

BASIC FINANCIAL STATEMENTS

HAMPTON ROADS PLANNING DISTRICT COMMISSION

STATEMENT OF NET POSITION
June 30, 2016

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	3,798,367
Due from other governments		1,212,295
Investments		975,229
Prepaid items and deposits		45,881
Capital assets:		
Land		80,621
Building and improvements		2,348,623
Office furniture and equipment		797,481
Automobiles		72,443
Less accumulated depreciation and amortization		(2,078,168)
Total assets		7,252,772
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan		408,882
Total deferred outflows of resources		408,882
LIABILITIES		
Accounts payable		535,091
Contracts payable		134,803
Accrued payroll		10,762
Noncurrent liabilities:		
Due within one year:		
Compensated absences		399,776
Due in more than one year:		
Other postemployment benefits		1,698,099
Net pension liability		2,065,307
Total liabilities		4,843,838
DEFERRED INFLOWS OF RESOURCES		
Pension plan		367,452
Total deferred inflows of resources		367,452
NET POSITION		
Net investment in capital assets		1,221,000
Unrestricted		1,229,364
Total net position	$	2,450,364

HAMPTON ROADS PLANNING DISTRICT COMMISSION

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

		Program Revenues	Net (Expense) Revenue and Change in Net Position
	Expenses	Operating Grants and Contributions	Governmental Activities
Functions/Programs:			
Governmental activities:			
Indirect - general and administrative	$ 1,534,782	$ 1,534,782	$ -
Personnel	3,600,083	2,993,204	(606,879)
Consultants	1,613,209	1,613,209	-
Transportation pass-through services	513,739	513,739	-
Housing and Emergency Management pass-through	390,673	390,673	-
Total governmental activities	$ 7,652,486	$ 7,045,607	(606,879)
General revenues:			
Miscellaneous			115,612
Use of money - investment income			17,694
Total general revenues			133,306
Change in net position			(473,573)
Net position, beginning of year			2,923,937
Net position, end of year			$ 2,450,364

HAMPTON ROADS PLANNING DISTRICT COMMISSION

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

		General Fund
ASSETS		
Cash and cash equivalents	$	3,798,367
Due from other governments		1,212,295
Investments		975,229
Prepaid items and deposits		45,881
Total assets	$	6,031,772
LIABILITIES		
Accounts payable	$	535,091
Contracts payable		134,803
Accrued payroll		10,762
Total liabilities		680,656
FUND BALANCE		
Nonspendable		45,881
Committed		1,026,038
Assigned		1,300,638
Unassigned		2,978,559
Total fund balance		5,351,116
Total liabilities and fund balance	$	6,031,772

See Notes to Financial Statements.

HAMPTON ROADS PLANNING DISTRICT COMMISSION

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balance - governmental fund		$ 5,351,116
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund.		
Governmental capital assets	$ 3,299,168	
Less accumulated depreciation and amortization	(2,078,168)	
Net capital assets		1,221,000
Deferred outflows of resources represent a consumption of net position that applies to a future period and, therefore, are not recognized as expenditures in the governmental fund until then.		
Pension plan		408,882
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund.		
Compensated absences	(399,776)	
Other postemployment benefits	(1,698,099)	
Net pension liability	(2,065,307)	
		(4,163,182)
Deferred inflows of resources represent an acquisition of net position that applies to a future period and, therefore, are not recognized as revenue in the governmental fund until then.		
Pension plan		(367,452)
Net position of governmental activities		$ 2,450,364

HAMPTON ROADS PLANNING DISTRICT COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2016

	General Fund
Revenues:	
Intergovernmental:	
Local contributions	$ 3,552,821
Federal pass-through	3,040,944
Commonwealth	451,842
Use of money - investment income	17,694
Miscellaneous	115,612
Total revenues	7,178,913
Expenditures:	
Indirect - general and administrative	1,408,045
Personnel	3,458,534
Consultants	1,613,209
Transportation pass-through services	513,739
Housing and Emergency Management pass-through	390,673
Total expenditures	7,384,200
Net change in fund balance	(205,287)
Fund balance, beginning of year, as restated	5,556,403
Fund balance, end of year	$ 5,351,116

HAMPTON ROADS PLANNING DISTRICT COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Net change in fund balance - governmental fund			$	(205,287)
Reconciliation of amounts reported for governmental activities in the Statement of Activities:				
The governmental fund reports capital outlays as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlays in the current period.				
Expenditure for capital assets	$	6,175		
Less depreciation and amortization expense		(132,912)		
Excess of depreciation and amortization over capital outlays				(126,737)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.				
Compensated absences		59,853		
Other postemployment benefits		(307,033)		
Pension expense		105,631		
				(141,549)
Change in net position of governmental activities			$	(473,573)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Hampton Roads Planning District Commission (Commission) is a regional planning agency authorized by the Virginia Area Development Act of 1968 and created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the town of Smithfield, the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the counties of Gloucester, Isle of Wight, James City, Southampton, Surry, and York. Revenues of the Commission are received primarily from local government (member) contributions and various state and federal grant programs.

In the fall of 2008, the Commission was reorganized to better reflect efforts of the transportation staff in performing the planning, technical, and administrative duties of the regional Metropolitan Planning Organization (MPO) in accordance with regulations as determined by the Federal Highway Administration and the Virginia Department of Transportation. These duties were organized into a new function entitled Hampton Roads Transportation Planning Organization (HRTPO). HRTPO has two Memorandums of Understanding with the Commission. The first addresses the concept that the Commission "shall provide the planning and administrative staff to HRTPO" and all duties thereof. The second addresses the concept that HRTPO "desires that the Commission serve as fiscal agent for HRTPO" and all duties thereof. In this capacity, the audited financial statements of the Commission cover all the activities involved in administering the financial aspects of HRTPO.

The Commission's governing body is composed of various members appointed by each of the seventeen participating jurisdictions. These governmental entities have an ongoing financial responsibility to the Commission because its continued existence depends on the continued funding by the participants. The Commission is perpetual and no participating government has access to its resources or surpluses, nor is any participant liable for the Commission's debt or deficits.

The Commission is not a component unit of any of the participating governments. There are no component units to be included in the Commission's financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information of the governmental activities supported by intergovernmental revenues.

The government-wide Statement of Net Position reports net position as restricted when externally imposed constraints are in effect. Internally imposed designations of resources are not presented as restricted net position.

The government-wide Statement of Activities is designed to report the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include contributions that are restricted to meet the operational requirements of a particular function.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. Given that governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented which explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

Separate fund financial statements are provided for the governmental fund. In the fund financial statements, financial transactions and accounts of the Commission are organized on the basis of funds. The operation of the fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The governmental fund is reported on a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance (fund equity). Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements: Government-wide financial statements are reported 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. Intergovernmental revenues, consisting of contributions from participating jurisdictions and Federal and State funds from the Commonwealth of Virginia, are recognized in the period the funding is made available.

Governmental Fund Financial Statements: The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. The Commission considers revenues to be available if they are collected within 45 days after year end. Expenditures are recorded when a liability is incurred under the full accrual method of accounting. The individual Governmental Fund is:

> *General Fund* – The General Fund is the primary operating fund of the Commission and is used to account for and report all revenues and expenditures applicable to the general operations of the Commission. Revenues are derived primarily from intergovernmental activities. The General Fund is considered a major fund for financial reporting purposes.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The Commission's annual budget is a management tool that assists users in analyzing financial activity for its June 30 fiscal year. The Commission's primary funding sources are federal and state grants and local subsidies, which have periods that may or may not coincide with the Commission's fiscal year. These grants and subsidies are normally for a twelve-month period; however, they may be awarded for periods shorter or longer than twelve months.

Because of the Commission's dependency on federal, state and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The Commission's annual budget differs from that of a local government due to the uncertain nature of grant awards from other entities.

The resultant annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant awards from those estimated;
- Unanticipated grant awards not included in the budget; and
- Expected grant awards that fail to materialize.

The Board formally approves the annual budget in April, before the subsequent fiscal year begins. Due to grant expirations and new awards, amendments are made throughout the year as necessary.

E. Other Significant Accounting Policies

1. Cash and Cash Equivalents

   Cash equivalents include all highly liquid investments with maturities of three months or less.

2. Investments

   Investments are stated at fair value based on quoted market prices.

3. Prepaid Items

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements using the consumption method.

4. Capital Assets

   Capital assets include property and equipment and computer hardware with an individual cost of more than $5,000 and an estimated useful life in excess of one year. For constructed assets, all costs necessary to bring assets to the condition and location necessary for the intended use are capitalized. Repairs and maintenance are charged to operations as incurred. Additions and betterments are capitalized. The costs of assets retired and accumulated depreciation are removed from the accounts.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Other Significant Accounting Policies (Continued)

4. Capital Assets (Continued)

Depreciation and amortization of all exhaustible equipment, leasehold improvements and intangibles is charged as an expense against operations using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Office furniture and equipment	5 years
Automobiles	5 years

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as an expense. There were no impaired assets at year end.

5. 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 Commission's retirement plan and the additions to/deductions from the Commission's retirement plan's 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.

6. Compensated Absences

The Commission's policy permits VRS Plan 1 and 2 full-time employees to accumulate earned by unused vacation benefits, and VRS Hybrid employees Paid Time Off benefits, which are eligible for payment upon separation from the Commission's service up to twice the annual earnings, at the rate of pay at separation. The liability for such leave is reported as incurred in the government-wide statements. Vacation / Paid Time Off is granted to all full-time employees and is earned based upon the length of employment. The General Fund is responsible for paying the liability for compensated absence balances for employees.

Accumulated sick leave for VRS Plan 1 and 2 employees accrues until employees leave the Commission and will be paid out depending on date of hire and years of service. All full-time regular employees with hire dates before July 1, 2001 are grandfathered under the previous sick leave policy for the sick leave balances as of June 30, 2001 and, at the time of separation, will be reimbursed for one-third of the balance of hours remaining at their rate of pay at separation.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Other Significant Accounting Policies (Continued)

6. Compensated Absences (Continued)

Effective July 1, 2001, all regular full-time employees who participate in VRS Plan1 and 2 are eligible to receive payment of 25% of the sick leave unused balance, up to a maximum payout depending on their years of service, at the rate of pay at separation. Any employee who separates from the Commission with less than five (5) years of service will not be reimbursed for any remaining sick leave balance. Over 5 but less than 10 years, maximum payout will be $2,500; over 10 but less than 15 years, maximum payout will be $3,500; over 15 but less than 20 years, maximum payout will be $5,000; over 20 but less than 25 years, maximum payout will be $6,500; and over 25 years of service maximum payout will be $7,500.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then. The Commission currently has two items related to the pension plan that qualify for reporting in this category.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Commission currently has one item that qualifies for reporting in this category.

8. Fund Equity

The Commission reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance classification includes amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact (corpus of a permanent fund).

Restricted fund balance classification includes amounts constrained to specific purposes by their providers (higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance classification includes amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. To be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Other Significant Accounting Policies (Continued)

8. Fund Equity (Continued)

Assigned fund balance classification includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance classification includes the residual balance of the General Fund that has not been restricted, committed or assigned to specific purposes within the General Fund.

When fund balance resources are available for a specific purpose in more than one classification, the Commission will consider the use of restricted, committed or assigned funds prior to the use of unassigned fund balance as they are needed.

9. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Commission first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

10. Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

11. Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

At June 30, 2016, cash and cash equivalents consisted of the following, at cost, which approximates fair value:

Cash	$	114,983
Local Government Investment Pool (LGIP)		1,857,576
BB&T - CDARS		1,825,808
Total	$	3,798,367

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or its agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes; bankers’ acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk

As required by state statutes, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s and Fitch Investor’s Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investors Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s or “Aa” by Moody’s Investors Service.

As of June 30, 2016, 46% of the portfolio was invested in “A-1” U.S. Agency Securities, the remaining 54% was not rated at year end. All credit ratings presented in this paragraph are Standard & Poor’s ratings.

Note 2. Cash and Cash Equivalents (Continued)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be recovered. All cash of the Commission is maintained in accounts collateralized in accordance with the Act, Section 2.2-4400 et., seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member bank fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. With the ability to make additional assessments, the multiple bank collateral pool functions similarly to depository insurance. The Commonwealth of Virginia Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Commission's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. government or Agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. government or Agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. government or Agency securities.

Interest Rate Risk

As of June 30, 2016, the Commission had the following investments:

		Investment Maturities (in years)
	Fair Value	Less Than 1 Year
BB&T - Fixed Income Bonds	$ 975,229	$ 975,229
BB&T - CDARS	1,825,808	1,825,808
Local Government Investment Pool (LGIP)	1,857,576	1,857,576

The Commission is exposed to minimal interest rate risk since all investments had fixed interest rates at June 30, 2016.

At June 30, 2016, the Commission had investments of $1,857,576 in the LGIP. The LGIP is a professionally managed money market fund that invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of 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 the Treasury Board's regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of $1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's.

Note 3. Fair Value Measurement

The Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy are described below.

Level 1 Valuation based on quoted prices in active markets for identical assets or liabilities.

Level 2 Valuation based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets and liabilities.

Level 3 Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

	Level 1	Level 2	Level 3
BB&T - Fixed Income Bonds	$ 975,229	$ -	$ -
BB&T - CDARS	1,825,808	-	-

Note 4. Due From Other Governments

At June 30, 2016, amounts due from other governments were as follows:

Virginia Department of Transportation	$ 528,324
Virginia Department of Emergency Management	360,139
Virginia Department of Rail and Public Transit	243,341
HRTAC	26,545
Department of Environmental Quality	16,668
Hampton Roads Military and Federal Facilities Alliance	12,024
Virginia Department of Housing and Community Development	10,977
Surry County	6,250
City of Portsmouth - Federal Home Loan	3,561
City of Virginia Beach	1,590
Other	2,876
Total	$ 1,212,295

Note 5. Capital Assets

A summary of capital assets is as follows for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated or amortized:				
Land	$ 80,621	$ -	$ -	$ 80,621
Total capital assets not being depreciated or amortized	80,621	-	-	80,621
Capital assets being depreciated or amortized:				
Building and improvements	2,348,623	-	-	2,348,623
Office furniture and equipment	791,306	6,175	-	797,481
Automobiles	72,443	-	-	72,443
Total capital assets being depreciated or amortized	3,212,372	6,175	-	3,218,547
Less accumulated depreciation and amortization for:				
Building and improvements	(1,300,547)	(71,602)	-	(1,372,149)
Office furniture and equipment	(588,374)	(54,407)	-	(642,781)
Automobiles	(56,335)	(6,903)	-	(63,238)
Total accumulated depreciation and amortization	(1,945,256)	(132,912)	-	(2,078,168)
Total capital assets being depreciated or amortized, net	1,267,116	(126,737)	-	1,140,379
Capital assets, net	$ 1,347,737	$ (126,737)	$ -	$ 1,221,000

Depreciation and amortization was charged to Indirect – General and Administrative.

Note 6. Compensated Absences

The following is a summary of compensated absences activity of the Commission for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	$ 459,629	$ 465,173	$ 525,026	$ 399,776	$ 399,776

Note 7. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

All full-time, salaried permanent employees of the Commission are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the 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 a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**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. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") •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 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1

Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

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.

PLAN 2

Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

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.

HYBRID RETIREMENT PLAN

Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees.*

- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*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 Plan 1 or Plan 2 (as applicable) or ORP.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. 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. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.	**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.
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.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT 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 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. **Defined Contribution 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 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.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.
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 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** 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** The retirement multiplier for the defined benefit component is 1.0%. 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 Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component** 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.
Earliest Reduced Retirement Eligibility 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** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component** 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%. **Eligibility:** 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 the retirement date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Continued) **Eligibility (Continued):** 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.	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**	**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
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.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**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. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an 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.
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. When buying service, members must purchase their most recent period of service first. 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. • The cost for purchasing refunded service is the highest of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component** Not applicable.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	32
Inactive members:	
Vested	16
Non-vested	15
Active elsewhere in VRS	14
Total inactive members	45
Active members	42
Total	119

Contributions

The contributions 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 5.0% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.0% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.0% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.0% 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 political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 8.87% for Plan 1 and Plan 2, and 7.87% and 5.37% for the Hybrid Plan of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were $274,125 and $258,101 for the years ended June 30, 2016 and 2015, respectively.

B. Net Pension Liability

The Commission's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Note 7. Pension Plan (Continued)

B. Net Pension Liability (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

Mortality Rates:	14% of deaths are assumed to be service related.
– Pre-retirement:	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.
– Post-retirement:	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.
– Post-disablement:	RP-2000 Disabled Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 7. Pension Plan (Continued)

B. Net Pension Liability (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System 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 System 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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	9.00%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 7. Pension Plan (Continued)

B. Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 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 total pension liability.

C. Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2014	$ 15,162,815	$ 13,612,034	$ 1,550,781
Changes for the year:			
Service cost	302,119	-	302,119
Interest	1,028,029	-	1,028,029
Difference between expected and actual experience	188,230	-	188,230
Contributions – employer	-	258,101	(258,101)
Contributions – employee	-	146,515	(146,515)
Net investment income	-	608,113	(608,113)
Benefit payments, including refunds of employee contributions	(953,367)	(953,367)	-
Administrative expense	-	(8,751)	8,751
Other changes	-	(126)	126
Net changes	565,011	50,485	514,526
Balances at June 30, 2015	$ 15,727,826	$ 13,662,519	$ 2,065,307

Note 7. Pension Plan (Continued)

C. Changes in the Net Pension Liability (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability calculated using the stated discount rate, as well as what the net position liability 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 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's net pension liability	$ 4,005,186	$ 2,065,307	$ 449,450

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Commission recognized pension expense of $105,631. At June 30, 2016, 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	$ 274,126	$ -
Difference between expected and actual experience	134,756	-
Net difference between projected and actual earnings on pension plan investments	-	367,452
	$ 408,882	$ 367,452

The $408,882 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date and differences between expected and actual experience will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions as of June 30, 2016 will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	$ (90,691)
2018	(90,691)
2019	(116,358)
2020	65,044
Total	$ (232,696)

Note 8. Deferred Compensation Plan

The Commission has a deferred compensation plan under which the participants may defer a portion of their annual compensation subject to limitations of Internal Revenue Code, Section 457. Any contributions made to the deferred compensation plan are not available to employees until termination, retirement, death, or unforeseeable emergency. Contributions to the plan are administrated by a third-party administrator, ICMA Retirement Corporation. Total contributions to the plan were $9,568 for the year ended June 30, 2016.

Note 9. Other Postemployment Benefits

A. Plan Provisions and Benefits

The Commission provides other postemployment benefits (OPEB) for retired employees and their spouses and dependents. The plan's benefit levels and employer contributions are governed by the Commission and can be amended by the Commission through its Personnel and Budget Committee. The plan provides for healthcare insurance coverage for eligible retirees and their spouses and dependents. Membership in the plan at June 30, 2016 consisted of 40 active members with total active covered payroll of $3,027,800 and 23 retirees and spouses.

B. Plan Description

Covered full-time active employees who retire directly from the Commission with at least 20 years of service are eligible to receive postretirement health care benefits. Non-Medicare (under age 65) and Medicare eligible (age 65+) retirees and their spouses and dependents are covered with the Commission contributing 100% of the cost of participation in Anthem (PPO) or Advantage 65 (PPO) health insurance plans depending upon the retiree's Medicare eligibility.

C. Funding Policy

The Commission pays the full cost of coverage for healthcare benefits for qualified retirees and their spouses and dependents. The Commission has chosen to fund the healthcare benefits on a pay-as-you-go basis, so the plan has no assets.

The current annual required contribution (ARC) of the employer is 11.4% of covered payroll. For 2016, the Commission contributed $54,284 or approximately 1.8% of covered payroll.

D. Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Due to the plan's policy of not funding the ARC, there are still 30 years remaining in the amortization period as of June 30, 2016.

GASB Statement No. 45 does not require pre-funding of the OPEB liability. The Commission has elected not to pre-fund all of the OPEB liability at this time. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not pre-funded. At June 30, 2016, the Commission has recorded a liability of $1,698,099 on the Statement of Net Position for the governmental activities.

Note 9. Other Postemployment Benefits (Continued)

D. Annual OPEB Cost and Net OPEB Obligation (Continued)

The Commission is not required to contribute the ARC of the employer, an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation for the healthcare benefits for the year ended June 30, 2016:

Annual required contribution	$ 363,700
Interest on net OPEB obligation	48,687
Adjustment to annual required contribution	(51,070)
Annual OPEB cost	361,317
Contributions made	(54,284)
Increase in net OPEB obligation	307,033
Net OPEB obligation, beginning of year	1,391,066
Net OPEB obligation, end of year	$ 1,698,099

Trend Information

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 361,317	15.02%	$ 1,698,099
June 30, 2015	344,211	17.48%	1,391,066
June 30, 2014	303,483	18.92%	1,107,025

E. Funding Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $3,839,600. The covered payroll (annual payroll of active employees covered by the plan) was $3,027,800, and the ratio of the UAAL to the covered payroll was 126.81%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 9. Other Postemployment Benefits (Continued)

E. Funding Status and Funding Progress (Continued)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2015	$ -	$ 3,839,600	$ 3,839,600	0.00%	$ 3,027,800	126.81%
June 30, 2013	-	3,196,900	3,196,900	0.00%	3,282,600	97.39%
June 30, 2011	-	2,368,700	2,368,700	0.00%	3,054,700	77.54%

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included 3.5% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual health cost trend assumption utilizing the Getzen Trend Model. The investment rate included a 3.0% payroll growth assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 30 years since the plan is not funded.

Note 10. Committed Fund Balance

Committed Fund Balance is available for the following purposes:

Stormwater	$	383,183
Regional Water (H2O)		328,854
Regional Wastewater Program		190,625
Solid Waste Special Contracts Local		133,671
Capital building replacement reserve		174,685
Network servers/software reserve		20,000
Equipment reserve		14,000
Hampton Roads Clean Systems		56,702
Building operations and maintenance reserve		33,649
Interior upgrades reserve		8,576
Debris Management		8,965
Vehicle replacement reserve		15,000
HRLFP Admin		5,205
Local Government Contracts		126
Municipal Construction Std		13,402
SHRDSB STAFF		873
Agency funded		(482,339)
Metro Medical Response		120,861
	$	1,026,038

Negative balances represent expenditures already made by the Commission for which grant reimbursement has not yet been received. Such grants reimburse only quarterly or semi-annually.

Note 11. Commitments

On July 1, 2010, the Commission entered into an annual agreement with a vendor to provide public relations and marketing consulting services on environmental matters. The contract has an automatic renewal option for up to four years, unless otherwise terminated by either party. The Commission renewed the annual contract on July 1, 2015, and the renewal includes the same automatic four year renewal option. The contract requires annual payments of $100,000.

In June 2013, the Executive Committee authorized the Executive Director to contract with various vendors for the 2014 fiscal year. In July 2013, the Commission entered into an agreement with a vendor to provide legal counsel for assistance in the areas of storm water permits, TMDL requirements and associated activities. The contract has an automatic renewal option for up to four years, unless otherwise terminated by either party. The contract's approximate fee is $95,000 annually. A new contract was signed with this vendor commencing on July 1, 2015 for one year. The contract amount is up to $35,000.

Note 11. Commitments (Continued)

The Commission entered into an agreement with a vendor to provide water quality monitoring. The contract was for a period of one year commencing in January 2014. Total amount of this contract is $500,000. A new contract was signed with this vendor commencing on March 1, 2014 through June 30, 2019. The contract amount is up to $500,000 annually.

The Commission entered into various agreements for services related to regional and environmental planning and analysis on July 1, 2015. All agreements are annual and include renewal options for up to four years.

Note 12. Restatement

The following adjustments were made to the beginning fund balance at July 1, 2015:

Fund balance, as originally reported, July 1, 2015	$ 5,091,241
To reflect accrued payroll as part of the general fund previously recongized as entity-wide liability	(612)
Change in compensated absences reflected in general fund in previous years	12,799
To recognize grant funding recorded in fiscal year 2016 related to fiscal year 2015 activity	452,975
Fund balance, as adjusted, July 1, 2015	$ 5,556,403

Note 13. Pending GASB Statements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Commission. The statements which might impact the Commission are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will improve accounting and financial reporting by state and local governments for OPEB. It will also require the recognition of the entire OPEB liability and a comprehensive measure of OPEB expense. Statement No. 75 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, will improve the accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Statement No. 79 will be effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

Note 13. Pending GASB Statements (Continued)

GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No. 67, No. 68, and No. 73*, the objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement No. 82 will be effective for reporting periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Management has not yet determined the effect these statements will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HAMPTON ROADS PLANNING DISTRICT COMMISSION

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2015	$ -	$ 3,839,600	$ 3,839,600	0.00%	$ 3,027,800	126.81%
June 30, 2013	-	3,196,900	3,196,900	0.00%	3,282,600	97.39%
June 30, 2011	-	2,368,700	2,368,700	0.00%	3,054,700	77.54%

HAMPTON ROADS PLANNING DISTRICT COMMISSION

SCHEDULE OF CHANGES IN THE COMMISSION'S NET PENSION LIABILITY AND RELATED RATIOS - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30, 2014	Fiscal Year June 30, 2015
Total Pension Liability:		
Service cost	$ 303,385	$ 302,119
Interest	996,091	1,028,029
Differences between expected and actual experience	-	188,230
Benefit payments, including refunds of employee contributions	(733,051)	(953,367)
Net change in total pension liability	566,425	565,011
Total pension liability - beginning	14,596,390	15,162,815
Total pension liability - ending (a)	$ 15,162,815	$ 15,727,826
Plan Fiduciary Net Position:		
Contributions - employer	$ 265,987	$ 258,101
Contributions - employee	168,862	146,515
Net investment income	1,878,198	608,113
Benefit payments, including refunds of employee contributions	(733,051)	(953,367)
Administrative expense	(10,281)	(8,751)
Other	99	(126)
Net change in plan fiduciary net position	1,569,814	50,485
Plan fiduciary net position - beginning	12,042,220	13,612,034
Plan fiduciary net position - ending (b)	$ 13,612,034	$ 13,662,519
Commission's net pension liability - ending (a) - (b)	$ 1,550,781	$ 2,065,307
Plan fiduciary net position as a percentage of the total pension liability	89.77%	86.87%
Covered-employee payroll	$ 3,133,501	$ 3,217,577
Commission's net pension liability as a percentage of covered-employee payroll	49.49%	64.19%

Notes to Schedule:

(1) **Changes of benefit terms:** There have been no actuarially material 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, 2015 is not material.

(2) **Changes of assumptions:** The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:

a. Update mortality table
b. Decrease in rates of service retirement
c. Decrease in rates of disability retirement
d. Reduce rates of salary increases by 0.25% per year

(3) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years which information is available.

HAMPTON ROADS PLANNING DISTRICT COMMISSION

SCHEDULE OF COMMISSION CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30, 2014	Fiscal Year June 30, 2015
Contractually required contribution (CRC)	$ 258,101	$ 274,126
Contributions in relation to the CRC	258,101	274,126
Contribution deficiency (excess)	$ -	$ -
Employer's covered-employee payroll	$ 3,133,501	$ 3,217,577
Contributions as a percentage of covered-employee payroll	8.24%	8.52%

Notes to Schedule:

(1) Valuation date: June 30, 2015

(2) Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

(3) Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20-29 years
Asset valuation method	5-year smoothed market
Cost-of-living adjustments	2.50%
Projected salary increases	3.50%-5.35%
Investment rate of return	7.0%, including inflation at 2.50%

(4) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

COMPLIANCE SECTION

HAMPTON ROADS PLANNING DISTRICT COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Expenditures
DEPARTMENT OF TRANSPORTATION (DOT)				
Pass-through payments:				
Virginia Department of Rail and Public Transit:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	Not provided	$ 513,739	$ 772,294
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	Not provided	-	1,676,889
Total Department of Transportation			513,739	2,449,183
DEPARTMENT OF ENVIRONMENTAL QUALITY (DEQ)				
Pass-through payments:				
Virginia Department of Environmental Quality (DEQ):				
Coastal Zone Management Administration Awards	11.419	Not provided	-	55,764
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Pass-through payments:				
Virginia Department of Housing and Community Development:				
Home Investment Partnership Program	14.239	Not provided	76,797	76,797
DEPARTMENT OF HOMELAND SECURITY				
Pass-through payments:				
Virginia Department of Emergency Management:				
Homeland Security Grant Program	97.067	Not provided	-	336,274
Hazard Mitigation Grant	97.039	Not provided	-	110,281
Total Department of Homeland Security			-	446,555
Total Expenditures of Federal Awards			$ 590,536	$ 3,028,299

HAMPTON ROADS PLANNING DISTRICT COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Hampton Roads Planning District Commission (the Commission) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position or changes in net position of the Commission.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

Major Programs – The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. Major programs for the Commission and its component units were determined using a risk-based approach in accordance with Uniform Guidance.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Commission has elected to apply an indirect cost recovery rate approved by the Virginia Department of Transportation and has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

PBMares

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Commission Board Members
Hampton Roads Planning District Commission

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and the major fund of the Hampton Roads Planning District Commission (Commission) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 13, 2016.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a material misstatement of the Commission'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 or significant deficiencies may exist that were not identified. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2016-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Commission's Response to Finding

The Commission's response to the material weakness identified in our audit is described in the accompanying Corrective Action Plan. The Commission's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 13, 2016

PBMares[SM]

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Commission Board Members
Hampton Roads Planning District Commission

Report on Compliance for Each Major Federal Program

We have audited the Hampton Roads Planning District Commission's (Commission) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2016. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Those standards and Uniform Guidance require 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 our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each 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 each of its major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-02. Our opinion on each major federal program is not modified with respect to this matter.

Commission's Response to Finding

The Commission's response to the noncompliance finding identified in our audit as 2016-02 is described in the accompanying Corrective Action Plan. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 a 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-02, that we consider to be a significant deficiency.

Commission's Response to Finding

The Commission's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

PBMares, LLP

Harrisonburg, Virginia
October 13, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	√	Yes		No
Significant deficiencies identified		Yes	√	No
Noncompliance material to financial statements noted		Yes	√	No

Federal Awards

Internal control over major programs:

Material weaknesses identified		Yes	√	No
Significant deficiencies identified	√	Yes		No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	√	Yes		No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	√	Yes		No

II. FINANCIAL STATEMENT FINDINGS

2016-01: Proper Recognition of Grant Revenue

Requirement: Grant revenue related to reimbursement based grants should be recognized in the same period in which the eligible expenditures have been incurred and at which time all applicable eligibility requirements have been met.

Condition: During the course of our audit, it was noted the Commission recognized revenue in the current fiscal year associated with expenditures related to fiscal year 2015 grant activity. The revenue related to the eligible grant expenditures was not recorded in the period for which the expenditures were incurred and at which time all applicable eligibility requirements had been met. As a result, revenue related to fiscal year 2015 was improperly recorded during fiscal year 2016.

Cause: The Commission was unaware it was permitted to accrue revenue related to grant eligible expenditures that had not been billed for.

Effect: As a result of this error, the beginning fund balance for the General Fund was adjusted. The adjustment resulted in a material weakness related to revenue recognition of grant revenue.

Recommendation: We recommend the Commission adopt a policy to ensure grant revenue associated with eligible grant expenditures are recorded in the proper period.

Views of Responsible Officials: Management is in agreement with the finding.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2016-02: Schedule of Federal Expenditures of Federal Awards

Requirement: The Schedule of Expenditures of Federal Awards should include all expenditures incurred by the Commission related to federal activity.

Condition: It was noted the Commission excluded federal expenditures from its Schedule of Expenditures of Federal Awards received from the Virginia Department of Housing and Community Development related to the Home Investment Partnership Program.

Cause: The Commission was unaware the expenditures related to the Virginia Department of Housing and Community Development related to the Home Investment Partnership Program was required to be reported on the Schedule of Expenditures of Federal Awards.

Effect: As a result of the omission of the expenditures related to Home Investment Partnership Program the Schedule of Expenditures of Federal Awards was misstated for the year ended June 30, 2016.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

2016-02: Schedule of Federal Expenditures of Federal Awards (Continued)

Recommendation: We recommend the Commission adopt a policy to ensure all federal expenditures incurred are properly reported on its Schedule of Expenditures of Federal Awards.

Views of Responsible Officials: Management is in agreement with the finding.

HAMPTON ROADS PLANNING DISTRICT COMMISSION

CORRECTIVE ACTION PLAN
Year Ended June 30, 2016

I. FINANCIAL STATEMENT FINDINGS

Identifying Number: 2016-01: Proper Recognition of Grant Revenue

Finding:

During the course of our audit, it was noted the Commission recorded revenue in the current fiscal year that was associated with expenditures incurred in fiscal year 2015. As a result, revenue related to fiscal year 2015 was improperly recorded during fiscal year 2016. The revenue related to the eligible grant expenditures was not recorded in the period for which the expenditures incurred and at which the time all applicable eligibility requirements had been met.

Corrective Action Taken or Planned:

It has been the policy of the Commission to recognize grant revenue when an actual invoice has been submitted for reimbursement, which could be in a subsequent year from when the expenditures occurred. The Commission has now instituted a policy to recognize all revenues during the period that the reimbursable expenditures occur.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Identifying Number: 2016-02: Schedule of Federal Expenditures of Federal Awards

Finding:

It was noted the Commission excluded federal expenditures from its Schedule of Expenditures of Federal Awards received from the Virginia Department of Housing and Community Development related to the Home Investment Partnership Program.

Corrective Action Taken or Planned:

Since the Commission has received Virginia Department of Housing and Community Development related grants, these funds have been considered as State funding, not Federal. It was recently brought to our attention that these funds originate at the Federal level and are only passed-through the Commonwealth and should be recognized as Federal funds in our financial system. The Commission is now recognizing these funds on our annual Schedule of Expenditures of Federal Awards report.

HAMPTON ROADS PLANNING DISTRICT COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audit's Summary Schedule of Prior Audit Findings.