



## NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

### MEMORANDUM

**TO:** Chairman Martin E. Nohe and Members  
Northern Virginia Transportation Authority

**FROM:** Mayor Parrish, Chairman, Finance Committee

**DATE:** October 5, 2016

**SUBJECT:** Fiscal Year 2016 Financial and Compliance Audit Reports

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- 1. Purpose.** As a political subdivision of the Commonwealth of Virginia, the Authority is required to complete an annual audit of its financial activities for each fiscal year following standards 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 Authority contracted with PBMares, LLP to complete the required audit for FY2016.
- 2. Suggested motion.** *I move acceptance of the Northern Virginia Transportation Authority Financial and Compliance Audit Reports for the year ended June 30, 2016. (Attachment A).*
- 3. Current Situation.** The Authority's audit firm PBMares, LLP issued an unqualified (clean) opinion. This opinion reflects that the Authority's financial statements, in all material respects, fairly and accurately present the financial position of the Authority for FY2016.

**Attachment:** Northern Virginia Transportation Authority, Financial and Compliance Reports,  
Year Ended June 30, 2016

**NORTHERN VIRGINIA  
TRANSPORTATION AUTHORITY**

**FINANCIAL AND COMPLIANCE REPORTS  
Year Ended June 30, 2016**



**Northern Virginia  
Transportation Authority**

*The Authority for Transportation in Northern Virginia*

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## **INTRODUCTORY SECTION**

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**DIRECTORY OF PRINCIPAL OFFICIALS**

*Voting Members*

Hon. Martin Nohe, NVTA Chairman; Prince William County  
Hon. R. Scott Silverthorne, City of Fairfax, NVTA Vice Chairman;  
    Hon. Jay Fisette, Arlington County  
    Hon. Sharon Bulova, Fairfax County  
    Hon. Phyllis Randall, Loudoun County  
    Hon. Allison Silberberg, City of Alexandria  
    Hon. David Snyder, City of Falls Church  
    Hon. Harry J. "Hal" Parrish, II, City of Manassas  
    Hon. Jeanette Rishell, City of Manassas Park  
    Hon. Richard H. Black, Virginia Senate  
    Hon. Tim Hugo, Virginia House of Delegates  
    Hon. J. Randall Minchew, Virginia House of Delegates  
    Sandra Bushue, Governor's Appointee  
Gary Garczynski, Governor's Appointee, Commonwealth Transportation Board Member

*Non-Voting Members*

Helen Cuervo, Virginia Department of Transportation  
Jennifer Mitchell, Virginia Department of Rail and Public Transportation

*Town Representative*

Hon. Jerry Foreman, Town of Dumfries

*Certain Authority Staff*

Monica Backmon, Executive Director  
Michael Longhi, Chief Financial Officer  
Margaret Teal, CPA, Assistant Finance Officer

## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Authority Board Members  
Northern Virginia Transportation Authority  
Fairfax, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Northern Virginia Transportation Authority (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining fund information of the Authority, as of June 30, 2016, and the respective changes in financial position, 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 4-11 and 51-52, 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 or 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 Authority's basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

*PBMares, LLP*

Harrisonburg, Virginia  
October 6, 2016

## **NORTHERN VIRGINIA TRANSPORTATION AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of Northern Virginia Transportation Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016.

The Authority is a political subdivision of the Commonwealth of Virginia, created in 2002 by the Northern Virginia Transportation Authority Act, Title 15.2, of the *Code of Virginia*. The Authority's primary function is to conduct project planning, prioritization and funding of transportation projects for its member jurisdictions in the Northern Virginia region.

In November 2012, the Authority developed its long-range plan, Transaction 2040. On April 3, 2013, the Governor's substitute for House Bill 2313 ("HB2313") was adopted by the Virginia General Assembly. HB2313 provided a dedicated funding stream for transportation projects in Northern Virginia. This legislation coupled with the successful bond validation suit (BVS) enabled the Authority to fund regional transportation projects. HB2313 provided a permanent, annual source of revenue for the Authority to implement its mandate. The HB2313 revenue stream began on July 1, 2013.

The Authority member jurisdictions are the counties of Arlington, Fairfax, Loudoun and Prince William, and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park. The Authority has seventeen members as follows: the chief elected official, or their designees, of the nine cities and counties that are members of the Authority; two members of the House of Delegates appointed by the Speaker of the House; one member of the Senate appointed by the Senate Committee on Privileges and Elections; and two citizens who reside in counties and cities embraced by the Authority, appointed by the Governor. In addition, the Director of the Virginia Department of Rail and Public Transportation, or designee; the Commonwealth Transportation Commissioner, or designee; and the chief elected officer of one town in a county, which the Authority embraces, serve as non-voting members of the Authority.

All moneys received by the Authority and the proceeds of bonds and other debt instruments are required to be used solely for transportation purposes benefiting the member jurisdictions. Of the HB2313 revenues received, 30% are distributed to member jurisdictions based on revenues generated in the jurisdiction, for transportation projects and purposes authorized under Section 33.2-2510 and selected by the member jurisdiction. The remaining 70% of the HB 2313 revenues are first pledged to the payment of bonds and other debt instruments with the remaining revenues available to fund regional transportation projects and mass transit projects that increase capacity for the benefit of the member localities.

### **FINANCIAL HIGHLIGHTS**

#### **Highlights for Government-wide Financial Statements**

The government-wide financial statements report information about the Authority's reporting entity as a whole using the economic resources measurement focus and accrual basis of accounting.

- Assets and deferred outflows of resources of the Authority exceeded its liabilities for the year ended June 30, 2016 by \$560,225,747 (net position). Of this amount, \$589,247 represents unrestricted net position, which may be used to meet the Authority's ongoing operating obligations. The implementation of GASB Statement No. 68, *Accounting, and Financial Reporting for Pensions*, on the fiscal year 2016 Statement of Net Position, resulted in an increase of \$81,549 to record the net pension asset, and \$50,409 of deferred outflows of resources. Restricted net position totaled approximately \$559,604,499 and can be used only for regional transportation purposes. It should be noted the funds composing this net restricted position have been appropriated by the Authority for the construction of specific regional transportation projects, which meet the goals, purposes, and mandates of the Authority.

- The Authority's total outstanding debt for the year ended June 30, 2016 was \$65.3 million with \$11 million in unamortized bond premium related to the series 2014 bonds. This outstanding debt was created in December 2014, when the Authority entered the capital bond market for the first time with bonds designated to replace a short term Line of Credit with fixed rate, long term, low cost, permanent financing.
- For the fiscal year ended June 30, 2016, contributions and intergovernmental revenue, for the Authority's governmental activities totaled \$320.4 million. Expenses totaled \$169 million of which \$95.1 million represents the 30% funds distributed to member jurisdictions in accord with HB2313, \$69.3 million represents reimbursement of authorized project.

### **Highlights for Fund Financial Statements**

The fund financial statements provide detailed information about the Authority's funds using the current financial resources measurement focus and modified accrual basis of accounting.

- The Authority's General Fund reported a decrease in fund balance of \$80,850 due to an expense transfer for financial advisory and bond counsel services from the Regional Revenue Fund to the General Fund. The General Fund balance as of June 30, 2016 totaled \$486,801 compared with \$567,651 at the end of the previous fiscal year.
- The Authority's Special Revenue Funds (Local Distribution Fund and Regional Revenue Fund), reported an increase in fund balance of \$148,487,344 which has been appropriated by the Authority to transportation projects. This increases the overall balance to \$635,686,539 as of June 30, 2016 compared to \$487,199,195 at the end of the previous fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis provided here is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes required supplementary information and supplementary information intended to furnish additional detail to support the basic financial statements themselves.

The financial statements presented include all of the activities, which are part of the Authority reporting entity using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB). The government-wide financial statements present the financial picture of the Authority's governmental activities from the economic resources measurement focus using the accrual basis of accounting.

The fund financial statements include a separate column for each of the major governmental funds and the non-major Debt Service Fund. The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting. A reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach.

### **Government-Wide Financial Statements**

The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities, with the governmental activities combined. The Statement of Net Position presents the assets, deferred outflows of resources, and liabilities with the difference reported as net position. The Statement of Activities shows in broad terms changes to net position during the fiscal year.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or declining. Net position is one way to measure financial position but the reader should also consider other indicators, such as general economic conditions prevalent in geographic area the Authority serves.

The Statement of Activities presents information indicating how the Authority's net position changed during the fiscal year. All changes in net position are reported on an accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows in future fiscal periods.

Revenue is classified as program or general revenues. Program revenue consists of contributions from the member jurisdictions used to cover the Authority's administrative expenses. General revenues include the four intergovernmental revenues received, collected, and remitted from the Commonwealth of Virginia: specifically sales tax, grantors tax, transient occupancy tax, and interest earned on the Commonwealth's Northern Virginia Transportation Authority Fund. These tax receipts commenced July 1, 2013.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources, which have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority only reports governmental funds. The Authority does not have proprietary funds nor does it maintain fiduciary funds at this time. The governmental funds of the Authority are divided into three categories: General Fund, Special Revenue Funds, and Debt Service Fund.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Change in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains four governmental funds: the General Fund, two Special Revenue Funds, and a Debt Service Fund. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Change in Fund Balances for each of these funds. The General Fund includes the Authority's operating and administrative activities. The Local Distribution (30%), Special Revenue Fund reports 30% of the intergovernmental revenue received by the Authority under HB2313 and distributed to the member jurisdictions. The Regional Revenue (70%) Special Revenue Fund reports 70% of the intergovernmental revenue received by the Authority and used to fund transportation projects under HB2313. A Debt Service Fund is used to account for and report financial resources restricted to expenditures for debt service.

The Authority adopts annual appropriated budgets for its General Fund and the two special revenue funds. An internal budgetary comparison statement is maintained for the General Fund and Special Revenue Funds to demonstrate compliance with these budgets, which have been provided in the financial statements for fiscal year 2016.

## Notes to the Basic Financial Statements

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplementary Information

The Required Supplementary Information, which includes the Schedule of Authority Contributions – Virginia Retirement System and the Schedule of Changes in the Authority’s Net Pension Asset and Related Ratios – Virginia Retirement System, provides additional information that is required by accounting principles generally accepted in the United States to be presented as a supplement to the basic financial statements.

### Supplementary Information

Additional information is presented as a supplement to the basic financial statements. Although not required to be presented and not part of the basic financial statements, the schedules are included to provide additional information of interest to certain financial statement users.

## FINANCIAL ANALYSIS OF THE AUTHORITY REPORTING ENTITY AS A WHOLE

An analysis of the Authority’s financial position begins with a review of the Statement of Net Position and the Statement of Activities. These two statements report the Authority’s net position and changes therein. It should be noted the Authority’s position could also be affected by non-financial factors, including economic conditions, population growth, and new regulations.

### Statement of Net Position

The following table presents a summary of the Statement of Net Position for the Authority as of June 30, 2016. Comparable data for June 30, 2015 has been included for comparison purposes.

#### **Summary Statement of Net Position June 30, 2016 and 2015**

	Governmental Activities		Increase (Decrease)	% Change
	2016	2015		
Assets:				
Current and other assets	\$ 668,806,577	\$ 506,949,822	\$ 161,856,755	31.9%
Capital assets, net	32,001	38,096	(6,095)	-16.0%
Total assets	<u>668,838,578</u>	<u>506,987,918</u>	<u>161,850,660</u>	31.9%
Deferred outflows of resources	<u>50,409</u>	-	<u>50,409</u>	100.0%
Liabilities:				
Current and other liabilities	34,784,107	21,318,634	13,465,473	63.2%
Long-term liabilities	73,879,133	76,880,572	(3,001,439)	-3.9%
Total liabilities	<u>108,663,240</u>	<u>98,199,206</u>	<u>10,464,034</u>	10.7%
Net position:				
Net investment in capital assets	32,001	38,096	(6,095)	-16.0%
Restricted	559,604,499	408,371,088	151,233,411	37.0%
Unrestricted	<u>589,247</u>	<u>379,528</u>	<u>209,719</u>	55.3%
Total net position	<u>\$ 560,225,747</u>	<u>\$ 408,788,712</u>	<u>\$ 151,437,035</u>	37.0%

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities by \$560,225,747 at June 30, 2016.

A significant portion of net position, \$559.6 million, or 99.9% represents funds that have been restricted by HB2313. The remaining balance of \$589,247 is unrestricted and may be used to meet the Authority's ongoing obligations to its citizens and creditors.

Current assets consist primarily of amounts due from the Commonwealth of Virginia, cash, and cash equivalents, and restricted cash, cash equivalents, and investments. As of June 30, 2016, approximately \$54.2 million was due from the Commonwealth of Virginia, of which \$5 million is for grantors tax, \$42.5 million is for sales tax, and \$6.7 million is for transient occupancy tax. Restricted cash, cash equivalents, and investments totaled \$613.9 million of which \$607.9 million is restricted for regional transportation projects benefiting the member jurisdictions and \$6 million is restricted for debt service.

### Statement of Changes in Net Position

The following table presents the revenues, expenses and change in net position of the Authority for the fiscal year ended June 30, 2016. Comparable data for June 30, 2015 has been included for comparison purposes.

#### Summary Statement of Changes in Net Position Years Ended June 30, 2016 and 2015

	Governmental Activities		Increase (Decrease)	% Change
	2016	2015		
Revenues:				
Program revenues:				
Operating grants and contributions	\$ 1,100,262	\$ 1,149,473	\$ (49,211)	-4.28%
General revenue:				
Intergovernmental	316,946,738	307,264,149	9,682,589	3.15%
Interest income	2,368,579	391,165	1,977,414	505.52%
Miscellaneous	-	3,229	(3,229)	-100.00%
Total revenues	<u>320,415,579</u>	<u>308,808,016</u>	<u>11,607,563</u>	<u>3.76%</u>
Expenses:				
General and administration	1,944,222	1,007,439	936,783	92.99%
Jurisdictional distributions (30%)	95,093,539	92,183,027	2,910,512	3.16%
Project cost distributions	69,306,373	4,058,792	65,247,581	1607.56%
Interest on long-term debt	2,634,410	2,367,090	267,320	11.29%
Total expenses	<u>168,978,544</u>	<u>99,616,348</u>	<u>69,362,196</u>	<u>69.63%</u>
Change in net position	151,437,035	209,191,668	(57,754,633)	-27.61%
Beginning net position	<u>408,788,712</u>	<u>199,597,044</u>	<u>209,191,668</u>	<u>104.81%</u>
Ending net position	<u>\$ 560,225,747</u>	<u>\$ 408,788,712</u>	<u>\$ 151,437,035</u>	<u>37.05%</u>

For the fiscal year ended June 30, 2016, revenues totaled \$320.4 million. Expenses totaled \$169 million. A discussion of the key components of the revenue and expense is included in the funds analysis.

## **FINANCIAL ANALYSIS OF THE REPORTING ENTITY'S FUNDS**

### **Governmental Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the needs of the Authority's financing requirements.

**General Fund.** The General Fund is the operating fund of the Authority. At the end of fiscal year 2016, the General Fund Nonspendable fund balance was \$23,366, unassigned fund balance was \$215,816, while total fund balance equaled \$486,801. Fiscal year 2016 total fund balance decreased due to a one-time expenditure transfer for financial advisory and bond counsel services from the Regional Revenue Fund to the General Fund.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 18% of total General Fund expenditures, while total fund balance represents approximately 41% of that same amount.

The fund balance of \$486,801 includes \$247,619 of committed fund balance. The debt policy adopted on December 12, 2013, revised June 19, 2015, requires the Authority to maintain an operating reserve sufficient to fund at a minimum 20% of the General Fund operating expenses. This operating reserve may be used at the discretion of the Executive Director, to cover unanticipated increases in the Authority's expenditures. If used, the Executive Director will present a plan to the Authority for restoring the reserve during the next fiscal year budget process.

The Authority adopts an annual operating budget for General Fund operating activities for the purpose of determining the annual contributions from the member jurisdictions required to fund these activities. Total contributions by the nine member jurisdictions equaled \$1,100,262 for fiscal year 2016.

**Debt Service Fund.** The debt service fund reports financial resources restricted to the payment of principal and interest for the outstanding related series of transportation bonds. The debt service fund is not one of the Authority's major governmental funds. The debt service fund had a fund balance of \$464,271 as of June 30, 2016 on deposit for fiscal year 2017 debt obligations. The Authority contributes monthly to the debt service fund for upcoming debt service payments.

**Special Revenue Fund.** The Authority maintains two special revenue funds; the Local Distribution Fund (30%) and the Regional Revenue Fund (70%), both of these funds are categorized as major funds in the governmental fund statements. These funds are used to report the intergovernmental revenue received from the Commonwealth of Virginia under HB2313.

The General Assembly of the Commonwealth of Virginia through HB2313 (2013) authorized three revenue sources for the Authority: a 0.7% increase in the sales tax; a 2% increase in the transient occupancy (hotel) tax; and a fifteen cents per hundred dollar of value increase in the grantor's tax (congestion relief fee). These taxes were made effective on July 1, 2013.

Of the revenues received, the Local Distribution Fund (30%) reports 30% of the intergovernmental revenue received by the Authority and distributed to the member jurisdictions in accord with HB2313. This revenue can be used by the recipient for additional urban or secondary road construction; capital improvements that reduce congestion; transportation capital improvements which have been approved by the most recent long-range transportation plan adopted by the Authority; or for public transportation purposes.

The remaining 70% is recorded in the Regional Revenue Fund (70%). These funds are to be used by the Authority solely for regional transportation projects and purposes benefiting the member jurisdictions and other entities to fund transportation projects approved by the Authority that are contained in the regional transportation plan and in accord with HB2313.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The details of capital assets as of June 30, 2016 and 2015 are as follows:

	Governmental Activities	
	2016	2015
Office furniture and equipment	\$ 42,668	\$ 42,668
Less accumulated depreciation and amortization	10,667	4,572
<b>Total capital assets, net</b>	<b>\$ 32,001</b>	<b>\$ 38,096</b>

The Authority’s investment in capital assets as of June 30, 2016 amounted to \$32,001 (net of accumulated depreciation).

**Debt Administration**

In December 2014, the Authority entered the capital bond market for the first time with bonds designated to replace a short term Line of Credit obtained in fiscal year 2014 with fixed rate, long term, low cost, permanent financing. An initial bond sale is a significant undertaking. Actions include bond validation court proceedings, establishing internal policies and procedures, initial credit rating presentations on Wall Street and, finally, the marketing and sale of the bonds. Efforts to execute the Authority’s approved finance plan resulted in very strong credit ratings of AA+, Aa1 and AA+ with stable outlooks from Fitch, Moody’s and Standard & Poor’s. The bonds garnered a favorable market reception on Wall Street, reflected by a 2.5 times subscription rate and a low true interest cost of 3.09%.

At the end of June 30, 2016, the Authority had total debt outstanding of \$65,250,000 for Transportation Special Tax Revenue Bonds, Series 2014. The Authority is amortizing the bond premium from the sale over the life of the bonds. The balance of unamortized bond premium at June 30, 2016 is \$11,034,132. The bonds are secured by the Authority’s Regional Revenue and a debt service reserve of \$5,551,150 established from the proceeds upon issuance of the bonds. Assets of the debt service reserve fund are to be used solely to pay Series 2014 principal and interest.

**Economic Factors and Fiscal Year 2017’s Budget**

- Northern Virginia is both a nationally and globally significant region.
- It is categorized as having a broad, diverse, and stable regional economy.
- The region is the driver of economic activity for the Commonwealth of Virginia.
- In aggregate, the Authority’s nine member jurisdictions have experienced stable population growth since the 2010 Census with growth rates averaging 1.54% per year.

- Among the nine member jurisdictions, job growth has averaged 0.87 % per year over the last decade.
- In aggregate, the number of jobs in the Authority’s jurisdictions are projected to experience continued growth. In 2016 the regional job growth was 2.73%.
- Unemployment rate in the Authority’s jurisdictions is exceptionally low. At June 2016, the average preliminary unemployment rate not seasonally adjusted, in the Authority jurisdictions was 3.06% compared to 3.7% in the Commonwealth and 5.1% nationally.
- Per capita income average of the Authority’s jurisdictions is approximately \$46,033 compared to the Commonwealth at \$33,958 and \$28,555 nationally per the U.S. Census Bureau, 2010-2014 5-Year American Community Survey. This represents a 1% increase from the 2009-2013 5-Year American Community Survey.
- Median family income average for the Authority’s member jurisdictions is approximately \$116,896 compared to \$77,939 in the Commonwealth and \$65,443 nationally per the U.S. Census Bureau, 2010-2014 5-Year American Community Survey. This represents a 2% increase from the 2009-2013 5-Year American Community Survey.
- The fiscal year 2017 special revenue budgets include a projected 6% increase in sales tax revenue compared to the fiscal year 2016 budget; a 13% increase in transient occupancy tax revenue and a 17% increase in grantors tax. The increases for sales tax, grantor, and transient occupancy taxes are indicative of using updated estimation process to reflect actual fiscal year 2014 through fiscal year 2016 experience and are not indicative rates of increase projected for the long term. The Authority will continue to use conservative revenue estimation methods.
- The Authority’s general fund operating budget will increase from \$1,485,717 in fiscal year 2016 to \$2,067,230 in fiscal year 2017. This increase is reflective of the addition of two staff positions and the procurement of a Legislative Services contract.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority’s finances for all those interested. If you have any questions about this report or need additional financial information, contact Michael Longhi, Chief Financial Officer, Northern Virginia Transportation Authority, 3040 Williams Drive, Suite 200, Fairfax, Virginia 22031, or by email to [michael.longhi@thenovaauthority.org](mailto:michael.longhi@thenovaauthority.org).

## **BASIC FINANCIAL STATEMENTS**

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**STATEMENT OF NET POSITION**

**June 30, 2016**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 505,008
Other receivables	24,478
Due from other governments	54,211,407
Deposits and prepaid items	23,366
Restricted cash, cash equivalents and investments	613,960,768
Pension asset	81,549
Capital assets (net of accumulated depreciation and amortization):	
Office furniture and equipment	32,001
<b>Total assets</b>	<b>668,838,577</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension plan	50,409
<b>Total deferred outflows of resources</b>	<b>50,409</b>
<b>LIABILITIES</b>	
Accounts payable	14,463,256
Accrued liabilities	1,309,818
Bond reserves	342,287
Due to other governments	16,263,746
Current portion of long-term debt	2,405,000
Noncurrent liabilities:	
Due in more than one year	73,879,132
<b>Total liabilities</b>	<b>108,663,239</b>
<b>NET POSITION</b>	
Net investment in capital assets	32,001
Restricted	559,604,499
Unrestricted	589,247
<b>Total net position</b>	<b>\$ 560,225,747</b>

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2016**

	<b>Expenses</b>	<b>Program Revenues Operating Grants and Contributions</b>	<b>Net (Expense) Revenue and Change in Net Position Governmental Activities</b>
Functions/Programs			
Governmental activities:			
General and administration	\$ 1,944,222	\$ 1,100,262	\$ (843,960)
Jurisdictional distributions (30%)	95,093,539	-	(95,093,539)
Project cost distributions	69,306,373	-	(69,306,373)
Interest and issuance costs	2,634,410	-	(2,634,410)
<b>Total governmental activities</b>	<b>\$ 168,978,544</b>	<b>\$ 1,100,262</b>	<b>(167,878,282)</b>
General revenues:			
Intergovernmental revenue:			
Grantors tax			48,055,730
Sales tax			240,567,760
Transient occupancy tax			28,192,077
NVTA fund interest income			131,171
Interest income			2,368,579
<b>Total general revenues</b>			<b>319,315,317</b>
<b>Change in net position</b>			<b>151,437,035</b>
Net Position, beginning of year			408,788,712
Net Position, end of year			<b>\$ 560,225,747</b>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	General Fund	Special Revenue Funds		Non-Major	Total Governmental Funds
		Local Distribution Fund	Regional Revenue Fund	Debt Service Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 505,008	\$ -	\$ -	\$ -	\$ 505,008
Other receivables	-	-	24,478	-	24,478
Due from other governments	-	16,263,422	37,947,985	-	54,211,407
Deposits and prepaid items	23,366	-	-	-	23,366
Restricted cash, cash equivalents and investments	-	324	613,496,173	464,271	613,960,768
<b>Total assets</b>	<b>\$ 528,374</b>	<b>\$ 16,263,746</b>	<b>\$ 651,468,636</b>	<b>\$ 464,271</b>	<b>\$ 668,725,027</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 2,916	\$ -	\$ 14,460,340	\$ -	\$ 14,463,256
Accrued liabilities	38,657	-	979,470	-	1,018,127
Bond reserves	-	-	342,287	-	342,287
Due to other governments	-	16,263,746	-	-	16,263,746
<b>Total liabilities</b>	<b>41,573</b>	<b>16,263,746</b>	<b>15,782,097</b>	<b>-</b>	<b>32,087,416</b>
<b>FUND BALANCES</b>					
Nonspendable	23,366	-	-	-	23,366
Restricted	-	-	518,262,489	464,271	518,726,760
Restricted - working capital reserve	-	-	109,107,511	-	109,107,511
Restricted - project contingency reserve	-	-	8,316,539	-	8,316,539
Committed	247,619	-	-	-	247,619
Unassigned	215,816	-	-	-	215,816
<b>Total fund balances</b>	<b>486,801</b>	<b>-</b>	<b>635,686,539</b>	<b>464,271</b>	<b>636,637,611</b>
<b>Total liabilities and fund balances</b>	<b>\$ 528,374</b>	<b>\$ 16,263,746</b>	<b>\$ 651,468,636</b>	<b>\$ 464,271</b>	<b>\$ 668,725,027</b>

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

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

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Reconciliation of fund balances on the Balance Sheet for the governmental funds to the net position of the governmental activities on the Statement of Net Position:

Fund balances - governmental funds		\$ 636,637,611
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 funds:		
Capital assets	\$ 42,668	
Less: accumulated depreciation	<u>(10,667)</u>	
		32,001
Financial Statement elements related to pensions are applicable to future periods and, therefore, not reported in the governmental funds:		
Net pension asset	81,549	
Deferred outflows of resources employer contributions pension plan	48,913	
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments	<u>1,496</u>	
		131,958
Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.		(262,179)
Compensated absences are liabilities not due and payable in the current period and, therefore, are not reported in the governmental funds.		(29,512)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Revenue bonds	(65,250,000)	
Premiums on bonds payable	<u>(11,034,132)</u>	
		<u>(76,284,132)</u>
Net position - governmental activities		<u>\$ 560,225,747</u>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES -  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2016

	General Fund	Special Revenue Funds		Non-Major	Total Governmental Funds
		Local Distribution Fund	Regional Revenue Fund	Debt Service Fund	
<b>Revenues</b>					
Intergovernmental:					
Grantors tax	\$ -	\$ 14,416,719	\$ 33,639,011	\$ -	\$ 48,055,730
Sales tax	-	72,170,328	168,397,432	-	240,567,760
Transient occupancy tax	-	8,457,623	19,734,454	-	28,192,077
NVTA fund interest income	-	39,351	91,820	-	131,171
Interest income	-	9,518	2,357,045	2,016	2,368,579
Contribution member jurisdictions	1,100,262	-	-	-	1,100,262
<b>Total revenues</b>	<b>1,100,262</b>	<b>95,093,539</b>	<b>224,219,762</b>	<b>2,016</b>	<b>320,415,579</b>
<b>Expenditures</b>					
Current:					
General and administration	1,181,112	-	877,619	-	2,058,731
Jurisdictional distributions (30%)	-	95,093,539	-	-	95,093,539
Project cost distributions	-	-	69,306,373	-	69,306,373
Debt service:					
Principal	-	-	-	2,310,000	2,310,000
Interest	-	-	-	3,238,550	3,238,550
<b>Total expenditures</b>	<b>1,181,112</b>	<b>95,093,539</b>	<b>70,183,992</b>	<b>5,548,550</b>	<b>172,007,193</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(80,850)</b>	<b>-</b>	<b>154,035,770</b>	<b>(5,546,534)</b>	<b>148,408,386</b>
<b>Other Financing Sources (Uses)</b>					
Transfers	-	-	(5,548,426)	5,548,426	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(5,548,426)</b>	<b>5,548,426</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(80,850)</b>	<b>-</b>	<b>148,487,344</b>	<b>1,892</b>	<b>148,408,386</b>
Fund Balances, beginning of year	567,651	-	487,199,195	462,379	488,229,225
Fund Balances, end of year	\$ 486,801	\$ -	\$ 635,686,539	\$ 464,271	\$ 636,637,611

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds \$ 148,408,386

Governmental funds report 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. This is the amount by which depreciation exceeded capital outlays in the current period.

Deduct - depreciation expense (6,095)

Government funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Pension Expense 131,958

The issuance of long-term debt (e.g., bonds, leases, line of credit) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items. A summary of items supporting this adjustment is as follows:

Principal payment on revenue bonds 2,310,000

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 funds. The following is a summary of items supporting this adjustment:

Compensated absences	\$ (11,354)	
Change in accrued interest payable	7,700	
Amortization of premiums on bonds payable	596,440	
	592,786	592,786

**Change in net position of governmental activities \$ 151,437,035**

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
Year Ended June 30, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Over (Under)</b>
<b>Revenues</b>				
Contribution member jurisdictions	\$ 1,100,264	\$ 1,100,264	\$ 1,100,262	\$ (2)
<b>Total revenues</b>	<u>1,100,264</u>	<u>1,100,264</u>	<u>1,100,262</u>	<u>(2)</u>
<b>Expenditures</b>				
Current:				
General and administration	1,238,099	1,362,799	1,181,112	(181,687)
<b>Total expenditures</b>	<u>1,238,099</u>	<u>1,362,799</u>	<u>1,181,112</u>	<u>(181,687)</u>
<b>Deficiency of revenues under expenditures</b>	<u>(137,835)</u>	<u>(262,535)</u>	<u>(80,850)</u>	<u>181,685</u>
<b>Net change in fund balance</b>	(137,835)	(262,535)	(80,850)	181,685
Fund Balance, beginning of year	<u>137,835</u>	<u>262,535</u>	<u>567,651</u>	<u>305,116</u>
Fund Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 486,801</u>	<u>\$ 486,801</u>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -  
 BUDGET AND ACTUAL - LOCAL DISTRIBUTION  
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Over (Under)
<b>Revenues</b>				
Intergovernmental:				
Grantors tax	\$ 11,160,744	\$ 11,160,744	\$ 14,416,719	\$ 3,255,975
Sales tax	69,827,046	69,827,046	72,170,328	2,343,282
Transient occupancy tax	7,689,720	7,689,720	8,457,623	767,903
NVTA fund interest income	-	-	39,351	39,351
Interest income	-	-	9,518	9,518
<b>Total revenues</b>	<b>88,677,510</b>	<b>88,677,510</b>	<b>95,093,539</b>	<b>6,416,029</b>
<b>Expenditures</b>				
Current:				
Jurisdictional distributions (30%)	88,677,510	88,677,510	95,093,539	(6,416,029)
<b>Total expenditures</b>	<b>88,677,510</b>	<b>88,677,510</b>	<b>95,093,539</b>	<b>(6,416,029)</b>
<b>Deficiency of revenues under expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balance, beginning of year	-	-	-	-
Fund Balance, end of year	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL - REGIONAL REVENUE FUND  
Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Over (Under)
<b>Revenues</b>				
Intergovernmental:				
Grantors tax	\$ 26,041,736	\$ 26,041,736	\$ 33,639,011	\$ 7,597,275
Sales tax	162,929,773	162,929,773	168,397,432	5,467,659
Transient occupancy tax	17,942,678	17,942,678	19,734,454	1,791,776
NVTA fund interest income	-	-	91,820	91,820
Interest income	70,000	70,000	2,357,045	2,287,045
<b>Total revenues</b>	<u>206,984,187</u>	<u>206,984,187</u>	<u>224,219,762</u>	<u>17,235,575</u>
<b>Expenditures</b>				
Current:				
General and administration	2,500,000	2,500,000	877,619	1,622,381
Project cost distributions	528,862,681	519,326,153	69,306,373	450,019,780
Debt service:				
Issuance cost/fees	300,000	175,300	-	175,300
<b>Total expenditures</b>	<u>531,662,681</u>	<u>522,001,453</u>	<u>70,183,992</u>	<u>451,817,461</u>
<b>Excess (deficiency) of revenues over     (under) expenditures</b>	<u>(324,678,494)</u>	<u>(315,017,266)</u>	<u>154,035,770</u>	<u>469,053,036</u>
<b>Other Financing Uses</b>				
Transfers for debt service	(5,548,550)	(5,548,550)	(5,548,426)	124
<b>Total other financing uses</b>	<u>(5,548,550)</u>	<u>(5,548,550)</u>	<u>(5,548,426)</u>	<u>124</u>
<b>Net change in fund balance</b>	<u>(330,227,044)</u>	<u>(320,565,816)</u>	<u>148,487,344</u>	<u>469,053,160</u>
Fund Balance, beginning of year	<u>330,227,044</u>	<u>320,565,816</u>	<u>487,199,195</u>	<u>166,633,379</u>
Fund Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 635,686,539</u>	<u>\$ 635,686,539</u>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

The financial statements of the Northern Virginia Transportation Authority (“the Authority”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Governmental Accounting Standards Board (“GASB”) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

#### A. Reporting Entity

The Authority is a political subdivision of the Commonwealth of Virginia, created in 2002 by the Northern Virginia Transportation Authority Act, Title 15.2, of the *Code of Virginia*. The Authority’s primary function is to conduct project planning, prioritization and funding for regional transportation purposes in the Northern Virginia region.

In November 2012, the Authority developed its long-range plan, Transaction 2040. On April 3, 2013, the Governor’s substitute for House Bill 2313 (the “HB2313”) was adopted by the Virginia General Assembly. HB2313 provided a dedicated funding stream for transportation projects in Northern Virginia. HB2313 provided a permanent, annual source of revenue for the Authority to implement its legislative mandates and the new revenue stream commenced on July 1, 2013.

The member jurisdictions of the Authority are the counties of Arlington, Fairfax, Loudoun and Prince William, and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park. The Authority has seventeen members as follows: the chief elected official, or their designees, of the nine cities and counties that are members of the Authority; two members of the House of Delegates appointed by the Speaker of the House; one member of the Senate appointed by the Senate Committee on Privileges and Elections; and two citizens who reside in counties and cities embraced by the Authority, appointed by the Governor. In addition, the Director of the Virginia Department of Rail and Public Transportation, or designee; the Commonwealth Transportation Commissioner, or designee; and the chief elected officer of one town in a county, which the Authority embraces, serve as non-voting members of the Authority.

All moneys received by the Authority and the proceeds of bonds and other debt instruments are required to be used solely for transportation purposes benefiting the member jurisdictions. Of the HB2313 revenues received, 30% are distributed to member jurisdictions based on revenues generated in the jurisdiction, for transportation projects and purposes authorized under Section 33.2-2510 and selected by the member jurisdiction. The remaining 70% of the HB 2313 revenues are first pledged to the payment of bonds and other debt instruments with the remaining revenues available to fund regional transportation projects and mass transit projects that increase capacity for the benefit of the member localities

#### 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.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Government-wide and Fund Financial Statements (Continued)

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 grants and contributions that are restricted to meeting the operational requirements of a particular function.

Separate fund financial statements are provided for each of the governmental funds. In the fund financial statements, financial transactions and accounts of the Authority are organized on the basis of funds. The operation of each 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 funds are reported on a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances (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 taxes and fees from the Commonwealth of Virginia and local operating contributions, 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 both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 90 days after year end. Expenditures are recorded when a liability is incurred under the full accrual method of accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The individual Government Funds are:

*General Fund* – The General Fund is the primary operating fund of the Authority and is used to account for and report all revenues and expenditures applicable to the general operations of the Authority which are not accounted for in other funds. Revenues are derived primarily from contributions from member jurisdictions. The General Fund is considered a major fund for financial reporting purposes.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (Continued)

*Special Revenue Funds* – Special revenue funds account for and report the proceeds of specific revenue sources restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Authority has two special revenue funds. The Local Distribution Fund (30%) reports 30% of the intergovernmental revenue received by the Authority. The 30% funds are distributed to the member jurisdictions on a pro rata basis with each localities' share being the total of the revenues received that are generated or attributable to the locality divided by the total for use according to HB2313. The Regional Revenue Fund (70%) includes amounts to be used by the Authority solely for regional transportation projects and other entities to fund transportation projects selected by the Authority that are contained in the regional transportation plan, or mass transit capital projects that increase capacity. Both special revenue funds are considered a major fund for financial reporting purposes.

*Debt Service Fund* – The Debt Service Fund is used to account for and report financial resources that are restricted or committed for expenditures related to principal and interest.

#### D. Budgeting

The Authority adopts an annual operating budget for the planning and administrative activities of the General Fund. The budgeting process enables the Authority to determine the annual contributions required from the member jurisdictions to fund its planning and administrative activities. Accumulated fund balances in excess of anticipated minimum operating cash requirements are used as a revenue source in subsequent budgets. The Authority also adopts a budget for the Local Distribution Fund (30%) which promptly distributes 30% of the revenue from tax proceeds to the nine member jurisdictions based on their respective revenue contribution through the taxes collected by the Commonwealth.

To fund the various transportation projects approved by the Authority, the Regional Revenue Fund (70%) budget includes all debt service obligations costs of issuance and funding of the Working Capital Reserve as well as PayGo projects.

#### E. Other Significant Accounting Policies

##### 1. Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less. The investment in the Local Government Investment Pool (LGIP or Pool) and the Virginia State Non-Arbitrage Program (SNAP or Pool), are 2a7-like pools and are reported at the Pool's share price.

##### 2. Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments as reported in the Statement of Net Position are comprised of funds that shall be used solely for regional transportation purposes benefiting the member jurisdictions and funds related to bond compliance requirements. Bond proceeds are maintained in compliance with the provisions of the Tax Reform Act of 1986 and as required by the Authority's Master Indenture of Trust. Investments are stated at fair value based on quoted market prices.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### E. Other Significant Accounting Policies (Continued)

##### 3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses 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 they are incurred. Additions and betterments are capitalized. The costs of assets retired and accumulated depreciation are removed from the accounts.

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:

<u>Asset Category</u>	<u>Useful Life (years)</u>
Computer Hardware & Peripherals	4
Office Furniture	7-10
Office Equipment	5-10
Leasehold Improvements	Life of the lease

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2016.

Funding of transportation capital projects: For projects approved and funded by the Authority with regional revenue funds (70%), either as a PayGo or financed project, the Authority does not take ownership of such projects. Therefore, these projects are not reflected on the Authority's financial statements.

##### 5. Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. 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 Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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. Net pension assets and deferred outflows of resources are reported in the government-wide fund financial statements.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### E. Other Significant Accounting Policies (Continued)

##### 6. Compensated Absences

The Authority's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from the Authority's service. The liability for such leave is reported as incurred in the government-wide statements. Vacation leave for the Authority employees is granted to all full and part-time employees and is earned based upon the length of employment. Employees with zero to ten (10) years of service may carryover a maximum of 240 hours of accumulated leave. Employees with more than 10 years of service may carryover 360 hours of leave. The allowed accumulated leave earned yet not paid has been recorded as a liability on the Statement of Net Position.

Accumulated sick leave lapses when employees leave the Authority and, therefore, upon separation from service, no monetary obligation exists.

##### 7. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The Authority does recognize bond issuance costs in the governmental funds as a current period expense in accordance with GASB Statement No. 65.

##### 8. Deferred Outflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. The first consists of pension contributions subsequent to the measurement date. These will be applied to the net pension asset in the next fiscal year. The second item, the net difference between projected and actual earnings on the Virginia Retirement System's plan investments, is reported in the government-wide Statement of Net Position.

##### 9. Fund Equity

The Authority 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).

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### E. Other Significant Accounting Policies (Continued)

##### 9. Fund Equity (Continued)

*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 the action to remove or change the constraint.

*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.

The General Fund balance includes \$247,619 categorized as committed fund balance as of June 30, 2016. The debt policy adopted by the Authority on December 12, 2013 and revised June 19, 2015, requires the Authority to maintain an operating reserve sufficient to fund at least 20% of the General Fund operating expenses. The operating reserve may be used at the discretion of the Executive Director, to cover unanticipated increases in the Authority's expenditures. If used, the Executive Director will present a plan to the Authority for restoring the reserve during the next fiscal year budget process.

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

##### 10. Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. The net position caption "net investment in capital assets" consists of capital assets, net of accumulated depreciation and amortization. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### E. Other Significant Accounting Policies (Continued)

##### 11. 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 and liabilities 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.

##### 12. Inter-fund Transfers

Transactions among the Authority's funds would be treated as revenues and expenditures or expenses if they involved organizations external to the Authority government are accounted for as revenues and expenditures or expenses in funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

##### 13. Subsequent Events

The Authority has evaluated subsequent events through October 6, 2016, which was the date the financial statements were available to be issued.

### Note 2. Deposits and Investments

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

#### Governmental Activities

Cash	\$ 505,008
Restricted:	
Demand Deposits	34,148,564
LGIP	375,947,136
SNAP	75,405,074
Regions Bank	52,556,358
Virginia Investment Pool	75,903,636
<b>Total restricted</b>	<u>613,960,768</u>
<b>Total</b>	<u>\$ 614,465,776</u>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments (Continued)

#### 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, 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). Investments are presented at fair market value on a quoted price basis.

#### Investment Policy

The Authority adopted a formal investment policy in December 2014. The goal of the policy is to minimize risk and to ensure the availability of cash to meet Authority expenditures, while generating revenue from the use of funds, which might otherwise remain idle. The primary objectives of the Authority’s investment activities in priority order are safety, liquidity, and yield. The policy specifies eligible and ineligible investments; diversification requirements; maximum length of time for various types of investments; and the process for purchasing securities.

#### Credit Risk

The investment policy specifies credit quality for certain types of investments, as described below, in accordance with the *Code of Virginia*, and the policy specifies the qualifications for institutions providing depository and investment services. In addition, the Chief Financial Officer must conduct a quarterly review of the condition of each authorized financial institution and broker/dealer.

Investment	Credit Quality
Savings account or CD’s of any bank or savings and loan association within the Commonwealth of Virginia	Bank or savings and loan association must be a “qualified public depository”
Bankers’ acceptances	Institution must be “prime quality” as determined by one or more recognized rating services
Commercial paper	Must be “prime quality” as rated by two of the following: Moody’s (prime 1); S&P (A-1); Fitch (F-1); Duff and Phelps (D-1)
Corporate notes	Must be “high quality” as defined by ratings of at least AA by S&P and Aa by Moody’s
Negotiable certificates of deposit and negotiable bank deposit notes	Must have ratings of at least A-1 by S&P and P-1 by Moody’s for short-term instruments and AA by S&P and Aa by Moody’s for long-term instruments

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments (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 Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (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.

#### Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the maturity of various investment vehicles, as indicated in the chart below.

#### Concentration of Credit Risk

The Authority's investment policy provides limitations on the percentage of the portfolio that can be invested in each type of security, as indicated in the following chart.

The limitations provided in the investment policy for maximum maturity and percentage of the portfolio for each category of investment are as follows:

Class	Length	Percent of Total Portfolio and Cash
Stocks, bonds, notes and other evidences of indebtedness of the Commonwealth of Virginia	60 months of less	75%
Stocks, bonds, notes and other evidences of indebtedness of the United States	60 months or less	100%
Stocks, bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth of Virginia	36 months or less	75%
Legally authorized stocks, bonds, notes and other evidences of indebtedness of any city, county, town or district situated in any one of the states of the United States	36 months or less	75%
Savings accounts or time deposits (CDs) in any bank or savings and loan association within the Commonwealth of Virginia	24 months or less	60%

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Deposits and Investments (Continued)

#### Concentration of Credit Risk (Continued)

Class	Length	Percent of Total Portfolio & Cash
Repurchase Agreements	12 months or less	20%
Bankers' Acceptances	12 months or less	10%
Prime Quality Commercial Paper	270 days or less	35% with a 5% per issuer limit
High Quality Corporate Notes	36 months or less	50%
Certificates representing ownership in either treasury bond principal at maturity or its coupons for accrual periods	36 months or less	25%
The Local Government Investment Pool (LGIP)	N/A	100%
Open End Mutual Funds	N/A	Maximum 20% in any one fund. Prior three year history must exceed internal performance by 25bps, net of management fee
The State Non-Arbitrage Pool (SNAP)	N/A	100% of bond proceeds or debt related reserve account
Negotiable certificates of deposit and negotiable bank deposit notes	24 months or less	25%
External Management Contract	3 years or less	25% of net balance of pooled investments, using lowest portfolio amount as target point. Prior three year history must exceed internal performance by 25bps, net of management fee

As of June 30, 2016, the Authority had investments of \$375,947,136 in the LGIP for governmental activities. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The 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.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Deposits and Investments (Continued)

As of June 30, 2016, the Authority had investments of \$75,405,074 in the Commonwealth of Virginia State Non-Arbitrage Program (“SNAP”). SNAP has been established by the Treasury Board of the Commonwealth of Virginia pursuant to the SNAP Act (Chapter 47, Title 2.2, *Code of Virginia* 1950, as amended) to provide comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt borrowings and other financings of Virginia Issuers subject to Section 148 (and related sections) of the Internal Revenue Code. The SNAP Fund is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant net asset value per share of \$1. The SNAP Fund invests in obligations of the United States Government and its agencies, high quality debt obligations of U.S. companies and obligations of financial institutions, and is rated “AAAm” by Standard & Poor’s.

As of June 30, 2016, the Authority had investments of \$75,903,636, stated at fair market value on a quoted price basis, in the Virginia Municipal League/ Virginia Association of Counties (VML/VACo) – Investment Pool. The quoted price basis used to calculate fair market value increased investment income \$450,714 as of June 30, 2016. VML/VACo’s pooled investment program is used by local governments to invest assets they expect to hold longer than one year. Participants are invested in high quality corporate and government securities with an average duration of one to two years. VML/VACo is rated AAF/S1 by Standard & Poor’s. “S1” indicates the lowest level of volatility. The weighted effective duration at June 30, 2016 is 1.94 years.

### Bond Proceeds

Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the Master Indenture of Trust and the First Supplemental Indenture of Trust both dated December 1, 2014. Bond proceeds shall be invested in SNAP and alternate investment pools that provide assistance to local governments in the investment of bond proceeds and the preparation of rebate calculations in compliance with treasury arbitrage regulations in accordance with the *Code of Virginia* requirements or the Authority’s own investment policy. As of June 30, 2016, the Authority had \$52,556,358 held by the bond trustees, Regions Bank. Of this amount, \$46,518,062 was in the 2014 Project Fund account, \$5,574,025 was in the Debt Service Reserve account, and \$464,271 is the debt service account for payment of principal and interest.

### Note 3. Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

- |                |  |
|----------------|--|
| <b>Level 1</b> | Valuation based on quoted prices in active markets for identical assets or liabilities.  |
| <b>Level 2</b> | 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. |
| <b>Level 3</b> | Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.   |

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. Fair Value Measurement (Continued)**

The following table shows the Authority's investments by fair value level as of June 30, 2016:

Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
Money market:				
John Marshall Bank	\$ 14,113,321	\$ 14,113,321	\$ -	\$ -
Access National Bank	20,035,241	20,035,241	-	-

The remaining investments maintained by the Authority are held in external investment pools which are exempt from the fair value disclosure.

**Note 4. Due To/From Other Governments**

At June 30, 2016, due from other governments consisted of the following:

Due from Commonwealth of Virginia:	Local Distribution Fund	Regional Revenue Fund	Total
Grantors Tax	\$ 1,485,525	\$ 3,466,226	\$ 4,951,751
Sales Tax	12,762,525	29,779,224	42,541,749
Transient Occupancy Tax	2,003,355	4,674,494	6,677,849
NVTA Fund Interest	12,017	28,041	40,058
<b>Total</b>	<b>\$ 16,263,422</b>	<b>\$ 37,947,985</b>	<b>\$ 54,211,407</b>

Amounts due to other governments as of June 30, 2016 consisted of the following:

	Amount
City of Alexandria	\$ 1,053,140
Arlington County	2,154,902
City of Fairfax	437,398
Fairfax County	7,038,994
City of Falls Church	153,210
Loudoun County	2,852,083
City of Manassas	294,319
City of Manassas Park	70,419
Prince William County	2,209,281
<b>Total</b>	<b>\$ 16,263,746</b>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Intergovernmental Revenues, Commonwealth of Virginia

Intergovernmental revenues from the Commonwealth of Virginia include additional fees or taxes imposed in each of the Member Jurisdictions as follows:

An additional Retail Sales Tax of 0.7% is added to the standard rate of retail sales tax imposed by the Virginia Code. The additional tax is not levied upon food purchased for human consumption.

A Regional Congestion Relief Fee (Grantors Tax) equivalent to \$0.15 for each \$100 of value imposed on every deed and deed of trust admitted to record in the Commonwealth subject to certain exceptions and exemptions.

An additional Regional Transient Occupancy Tax (Hotel) is added at a rate of 2% of the amount of the charge for the occupancy of any room or space.

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated and amortized:				
Office furniture and equipment	\$ 42,668	\$ -	\$ -	\$ 42,668
Less accumulated depreciation and amortization	4,572	6,095	-	10,667
<b>Total capital assets being depreciated and amortized, net</b>	<b>\$ 38,096</b>	<b>\$ (6,095)</b>	<b>\$ -</b>	<b>\$ 32,001</b>

### Note 7. Pension Plan

#### A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of the Authority 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.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Pension Plan (Continued)

#### A. Plan Description (Continued)

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:

<b>Plan 1</b>	<b>Plan 2</b>	<b>Hybrid Retirement Plan</b>
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> Plan 2 is a defined 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.</p>	<p><b>About the Hybrid Retirement Plan</b> 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")</p> <ul style="list-style-type: none"><li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li><li>• 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.</li><li>• 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.</li></ul>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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Note 7. Pension Plan (Continued)

B. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p><b>Eligible Members</b></p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>Eligible Members</b></p> <p>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.</p>	<p><b>Eligible Members</b></p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p>
<p><b>Hybrid Opt-In Election</b></p> <p>VRS 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.</p>	<p><b>Hybrid Opt-In Election</b></p> <p>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.</p>	<p>Political subdivision employees.*</p> <ul style="list-style-type: none"><li>• Members in Plan 1 or Plan 2 who elect to opt into the plan during the election window held January 1 – April 30, 2014; in the plan’s effective date for opt-in members was July 1, 2014.</li></ul>
<p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p>	<p><b>* Non-Eligible Members</b></p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p>
<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<ul style="list-style-type: none"><li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li></ul>
<p>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.</p>	<p>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.</p>	<p>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.</p>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Pension Plan (Continued)

#### A. Plan Description (Continued)

<b>Plan 1</b>	<b>Plan 2</b>	<b>Hybrid Retirement Plan</b>
<b>Retirement Contributions</b> <p>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.</p>	<b>Retirement Contributions</b> <p>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.</p>	<b>Retirement Contributions</b> <p>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.</p>
<b>Creditable Service</b> <p>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.</p>	<b>Creditable Service</b> <p>Same as Plan 1.</p>	<b>Creditable Service</b> <p><b><u>Defined Benefit Component</u></b><p>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.</p></p> <p><b><u>Defined Contribution Component</u></b><p>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p></p>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p><b>Vesting</b> 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.</p> <p>Members are always 100% vested in the contributions they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component</u></b> 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.</p> <p><b><u>Defined Contribution Component</u></b> 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.</p> <p>Members are always 100% vested in the contributions they make.</p> <p>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.</p>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
		<b>Vesting (Continued)</b>
		<b><u>Defined Contribution Component (Continued)</u></b>
		<ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul>
		Distribution is not required by law until age 70½.
<p><b>Calculating the Benefit</b> 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.</p> <p>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.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component</u></b> See definition under Plan 1.</p> <p><b><u>Defined Contribution Component</u></b> 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.</p>
<p><b>Average Final Compensation</b> A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

**Note 7. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>Plan 1</b>	<b>Plan 2</b>	<b>Hybrid Retirement Plan</b>
<p><b>Service Retirement Multiplier</b> 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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> 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.</p>	<p><b>Service Retirement Multiplier</b> The retirement multiplier for the defined benefit component is 1.0%.  For members that 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.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b></p>
		<p><b><u>Defined Benefit Component</u></b> Same as Plan 2.</p>
		<p><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Normal Social Security retirement age with at least 5 years (60 months) of creditable service or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b></p>
		<p><b><u>Defined Benefit Component</u></b> Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.</p>
		<p><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p><b>Earliest Reduced Retirement Eligibility</b></p> <p>Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b></p> <p>Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b><u>Defined Benefit Component</u></b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><b><u>Eligibility:</u></b> 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.</p> <p>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.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%) for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><b><u>Defined Benefit Component</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p>

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**Note 7. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>Plan 1</b>		<b>Plan 2</b>		<b>Hybrid Retirement Plan</b>	
<b>Cost-of-Living (COLA) in Retirement (Continued)</b>	<b>Adjustment in Retirement</b>	<b>Cost-of-Living (COLA) in Retirement (Continued)</b>	<b>Adjustment in Retirement</b>	<b>Cost-of-Living (COLA) in Retirement (Continued)</b>	<b>Adjustment in Retirement</b>
<b><u>Exceptions to COLA Effective Dates:</u></b>		<b><u>Exceptions to COLA Effective Dates:</u></b>		<b><u>Exceptions to COLA Effective Dates:</u></b>	
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:		Same as Plan 1.		Same as Plan 1 and Plan 2.	
<ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>					

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

**Note 7. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>Plan 1</b>	<b>Plan 2</b>	<b>Hybrid Retirement Plan</b>
<p><b>Disability Coverage</b></p> <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p><b>Purchase of Prior Service</b> 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.</p>	<p><b>Disability Coverage</b></p> <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Disability Coverage</b></p> <p>Eligible political subdivisions (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.</p> <p>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.</p> <p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported services.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• 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.</li> </ul> <p><b><u>Defined Contribution Component</u></b> Not applicable.</p>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Pension Plan (Continued)

#### A. Plan Description (Continued)

VRS issues a publicly available CAFR that includes financial statements and required supplementary information for the plans which it administers. A copy of that report may be obtained by writing to Virginia Retirement System, P.O. Box 2500, Richmond, Virginia 23218-2500, or from their website at [www.varetire.org](http://www.varetire.org).

#### **Employees Covered by Benefit Terms**

As of June 30, 2016, the following employees were covered by the benefit terms of the pension plan:

Active Members	<u>6</u>
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#### **Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. From the commencement of the Authority's plan in October 2014, employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 6.79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$48,913 and \$46,327 for the years ended June 30, 2016 and 2015, respectively.

#### B. Net Pension Asset

The Authority's net pension asset was measured as of June 30, 2015. The total pension asset used to calculate the net pension asset 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.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Pension Plan (Continued)

#### B. Net Pension Asset (Continued)

##### **Actuarial Assumptions**

The total pension asset for General Employees in the Authority'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 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate or return	7.0 percent, 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 were 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 Disability 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

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plan (Continued)

#### B. Net Pension Asset (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%	0.09%	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%
<b>Total</b>	<b>100.00%</b>		<b>5.83%</b>
		Inflation	<b>2.50%</b>
		* Expected arithmetic nominal return	<b>8.33%</b>

\* 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%.

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

**Note 7. Pension Plan (Continued)**

B. Net Pension Asset (Continued)

**Discount Rate**

The discount rate used to measure the total pension asset was 7.0%. 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 Authority 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 the 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 Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at June 30, 2014	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	-	-	-
Interest	-	-	-
Changes in benefit terms	-	-	-
Changes in assumptions	-	-	-
Difference between expected and actual experience	-	-	-
Contributions – employer	-	30,617	(30,617)
Contributions – employee	-	49,918	(49,918)
Net investment income	-	951	(951)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	65	(65)
Other changes	-	(2)	2
<b>Net changes</b>	<b>-</b>	<b>81,549</b>	<b>(81,549)</b>
Balances at June 30, 2015	\$ -	\$ 81,549	\$ (81,549)

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

**Note 7. Pension Plan (Continued)**

C. Changes in the Net Pension Asset (Continued)

**Sensitivity of the Net Pension Asset to Changes in the Discount Rate**

The following presents the Net Pension Asset of the Authority using the discount rate of 7.00%, as well as what the Authority's Net Pension Asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
The Authority's Net Pension Asset	\$ (81,549)	\$ (81,549)	\$ (81,549)

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

For the year ended June 30, 2016, the Authority recognized pension expense of \$(52,428). At June 30, 2016, the Authority reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,496
Employer contributions subsequent to measurement date	<u>48,913</u>
<b>Total</b>	<u><u>\$ 50,409</u></u>

The \$48,913 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an increase of the Net Pension Asset in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 374
2018	374
2019	374
2020	<u>374</u>
	<u><u>\$ 1,496</u></u>

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 8. Operating Leases and Agreements

#### Governmental Activities

The Authority leases office space under a 60-month agreement, which commenced on October 6, 2014 and expires October 31, 2019. The lease was amended effective July 18, 2016 in consideration for additional office space. The lease provides for 2.5% annual increases in base rent over the term of the lease, and the pass through of a proportionate share of the building core factor and common areas. Rent expense for Governmental Activities as reported in the government wide financial statements totaled \$103,619.

As of June 30, 2016, the minimum long-term lease commitments were as shown below:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 117,763
2018	120,724
2019	<u>123,728</u>
<b>Total</b>	<u><u>\$ 362,215</u></u>

### Note 9. Long-Term Debt Obligations

In December 2014, the Authority issued \$69,045,000 of Transportation Special Tax Revenue Bonds to pay (i) certain transportation projects in the Authority member localities or (ii) certain mass transit capital projects serving the Authority member localities, (iii) the issuance and financing costs of the bonds, and (iv) to a fund debt service reserve fund for the bonds. The bonds were issued at a premium of \$11,928,792, which will be amortized over the life of the bonds.

#### Transportation Special Tax Revenue Bonds

The special tax revenue bonds are direct obligations of the Authority and secured by the Authority's Regional Revenue and a debt service reserve of \$5,551,150 based on the maximum annual debt service calculation. These bonds were issued pursuant to the Master Indenture of Trust dated December 1, 2014 and the First Supplemental Indenture of Trust dated December 1, 2014. The bonds are issued as serial bonds and are the first series of transportation bonds to be issued under the Master Indenture.

\$69,045,000 2014 Transportation Special Tax Revenue Bonds due in annual principal payments of \$2,450,000 to \$5,285,000 through June 2034, interest at 4.00% to 5.00%

\$ 65,250,000

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Long-Term Debt Obligations (Continued)**

**Changes in Long-Term Debt Obligations**

The following is a summary of long-term liability activity for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Compensated Absences	\$ 18,158	\$ 35,669	\$ 24,315	\$ 29,512	\$ 29,512
Transportation Special Tax					
Revenue Bonds	67,560,000	-	2,310,000	65,250,000	2,405,000
Unamortized Premiums	11,630,572	-	596,440	11,034,132	-
<b>Total governmental activities</b>	<b>\$ 79,208,730</b>	<b>\$ 35,669</b>	<b>\$ 2,930,755</b>	<b>\$ 76,313,644</b>	<b>\$ 2,434,512</b>

Federal arbitrage regulations apply to the Authority's special tax revenue bonds.

Funds are invested by the Trustee pursuant to the provisions of the Master Indenture and the First Supplemental Indenture of Trust. The Authority's Series 2014 Project Fund and Debt Service Reserve Fund are invested by the Trustee with SNAP, the Debt Service Fund is invested directly with Regions and is classified as restricted.

The debt service requirements for the Authority's bonds are as follows:

Year(s) Ending June 30,	Principal	Interest	Totals
2017	\$ 2,405,000	\$ 3,146,150	\$ 5,551,150
2018	2,500,000	3,049,950	5,549,950
2019	2,600,000	2,949,950	5,549,950
2020	2,730,000	2,819,950	5,549,950
2021	2,865,000	2,683,450	5,548,450
2022-2026	16,285,000	11,456,750	27,741,750
2027-2031	20,750,000	6,992,250	27,742,250
2032-2034	15,115,000	1,536,000	16,651,000
	<b>\$ 65,250,000</b>	<b>\$ 34,634,450</b>	<b>\$ 99,884,450</b>

**Note 10. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To reduce insurance costs and the need for self-insurance, the Authority has joined with other political subdivisions in the Commonwealth of Virginia in the VML Insurance Programs. The Authority has coverage with the VML Insurance Programs. Each Program member jointly and severally agrees to assume, pay and discharge any liability. The Authority pays VML the contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Program and claims and awards are to be paid.

# NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### Note 11. Pending GASB Statements

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

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 Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement 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**

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**SCHEDULE OF AUTHORITY CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM**

	Fiscal Year June 30, 2015
Contractually required contribution (CRC)	\$ 33,173
Contributions in relation to the CRC	<u>33,173</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered-employee payroll	\$ 488,557
Contributions as a percentage of covered-employee payroll	6.79%

**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	2.25%-2.50%
Projected salary increases	3.50%-5.35%, including inflation at 2.50%
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 Authority will present information for those years for which information is available.

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION ASSET AND RELATED RATIOS - VIRGINIA RETIREMENT SYSTEM**

	As of June 30, 2015
<hr/>	
Total Pension Liability	
Service cost	\$ -
Interest	-
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	-
<b>Net change in total pension liability</b>	<hr/> -
Total pension liability - beginning	-
Total pension liability - ending (a)	<hr/> <hr/> \$ -
Plan Fiduciary Net Position	
Contributions - employer	\$ 30,617
Contributions - employee	49,918
Net investment income	951
Administrative expense	65
Other	(2)
<b>Net change in plan fiduciary net position</b>	<hr/> 81,549
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	<hr/> <hr/> \$ (81,549)
The Authority's net pension asset - ending (a) - (b)	<hr/> <hr/> \$ (81,549)
Plan fiduciary net position as a percentage of the total pension liability	0%
Covered-employee payroll	\$ 488,557
The Authority's net pension asset as a percentage of covered-employee payroll	-17%

**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 ending 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 Authority will present information for those years for which information is available.

## **SUPPLEMENTARY INFORMATION**

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENDITURES**

**Year Ended June 30, 2016**

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Expenditures	
Professional services	\$ 984,570
Salaries and wages	693,608
Employee group insurance	138,931
Office rent	103,620
Employer payroll taxes	47,303
Technical and technology hosting services	37,471
Copier printing and duplication	15,336
Miscellaneous	9,571
Professional development, industry conferences and training	7,776
Phone services	5,460
Mileage and transportation	4,794
Insurance and liability bonds	3,759
Meeting	2,904
Office supplies	2,041
Computer and software purchases	1,586
	<hr/>
<b>Total expenditures</b>	<b>\$ 2,058,730</b>
	<hr/> <hr/>

**NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**

**SCHEDULE OF CHANGES IN NET POSITION BY JURISDICTION**

**LOCAL DISTRIBUTION FUND (30%)**

**Year Ended June 30, 2016**

	City of Alexandria	Arlington County	City of Fairfax	Fairfax County	City of Falls Church	Loudoun County	City of Manassas	City of Manassas Park	Prince William County	Totals
<b>Revenues</b>										
Intergovernmental:										
Commonwealth of Virginia										
Grantors tax	\$ 1,115,583	\$ 1,786,812	\$ 133,636	\$ 6,102,580	\$ 79,734	\$ 2,877,818	\$ 168,114	\$ 46,842	\$ 2,105,600	\$ 14,416,719
Sales tax	4,546,228	7,269,589	2,151,596	31,910,559	694,824	13,420,279	1,459,779	383,733	10,333,741	72,170,328
Transient occupancy tax	879,864	2,893,777	104,957	3,106,892	49,402	946,358	18,123	-	458,250	8,457,623
NVTA fund interest income	2,744	4,961	980	17,039	347	7,088	685	179	5,328	39,351
Interest Income	666	1,237	285	3,998	96	1,714	190	-	1,332	9,518
<b>Total revenues</b>	<b>6,545,085</b>	<b>11,956,376</b>	<b>2,391,454</b>	<b>41,141,068</b>	<b>824,403</b>	<b>17,253,257</b>	<b>1,646,891</b>	<b>430,754</b>	<b>12,904,251</b>	<b>95,093,539</b>
<b>Expenditures</b>										
Distribution of 30% local funds										
<b>Total expenditures</b>	<b>6,545,085</b>	<b>11,956,376</b>	<b>2,391,454</b>	<b>41,141,068</b>	<b>824,403</b>	<b>17,253,257</b>	<b>1,646,891</b>	<b>430,754</b>	<b>12,904,251</b>	<b>95,093,539</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balance, beginning of year	-	-	-	-	-	-	-	-	-	-
Fund Balance, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

## **COMPLIANCE SECTION**



**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**

To the Honorable Authority Board Members  
Northern Virginia Transportation Authority  
Fairfax, Virginia

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, each major fund and the remaining fund information of Northern Virginia Transportation Authority (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 6, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 that are required to be reported under *Government Auditing Standards*.

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

*PBMares, LLP*

Harrisonburg, Virginia  
October 6, 2016