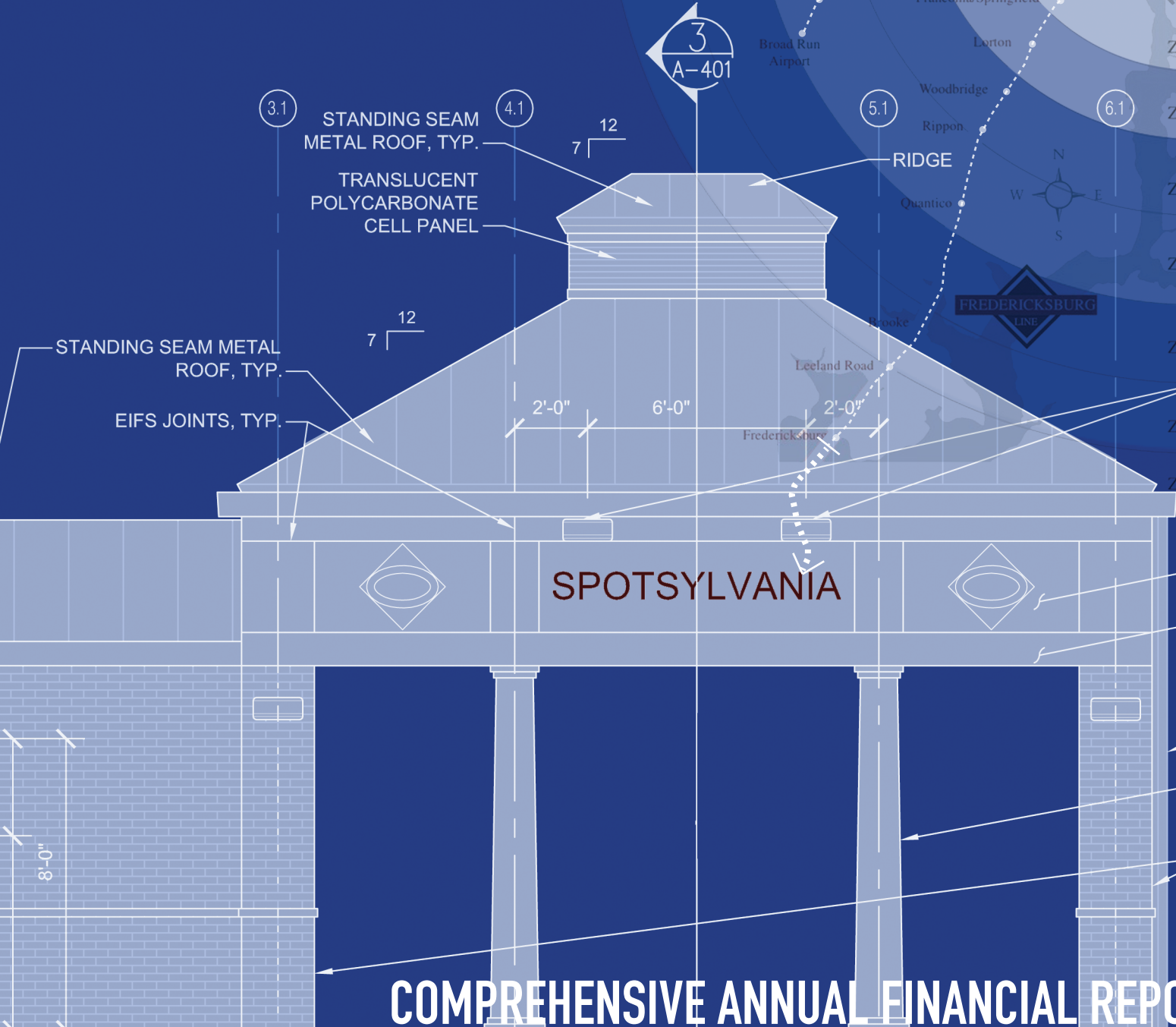
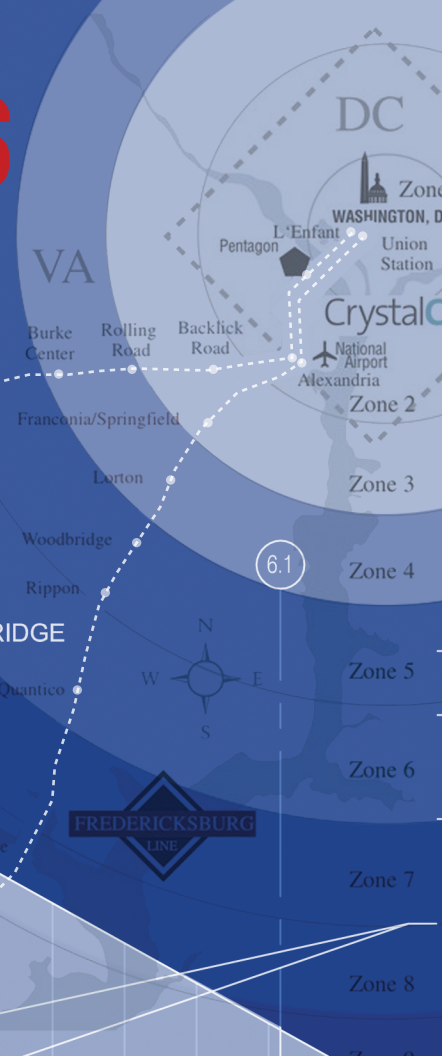


VIRGINIA RAILWAY EXPRESS

A commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission. Headquartered in Alexandria, Virginia.



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2016 AND 2015



VIRGINIA RAILWAY EXPRESS
A Better Way. A Better Life.



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Virginia Railway Express

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Prepared by:

Department of Finance

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Introductory Section





VIRGINIA RAILWAY EXPRESS

November 8, 2016

To the Honorable Operations Board Members and Commissioners
The Virginia Railway Express
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We are pleased to present the comprehensive annual financial report for fiscal year ended June 30, 2016 for the Virginia Railway Express (VRE), a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC), collectively referred to as “the Commissions.” NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

The report consists of management’s representations concerning the finances of VRE. Consequently, management assumes responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, VRE’s management has established a comprehensive internal control framework that is designed to protect VRE’s assets from loss, theft, or misuse and to gather sufficient reliable information for the preparation of VRE’s financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires estimates and judgments by management.

VRE’s financial statements have been audited by PBMares, LLP, a firm of licensed certified public accountants, and have earned an unmodified opinion. The independent auditor’s report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) is found immediately following the independent auditor’s report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of Virginia Railway Express

VRE provides commuter rail service on two railroad lines originating near Fredericksburg and Manassas, Virginia, and terminating at Union Station, Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2016, VRE operated 34 trains and served an average daily ridership of 17,767, based on 250 service days.

VRE is owned by the Commissions. Certain functions have been delegated to the VRE Operations Board, consisting of representatives of the Commissions who are also representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia’s Department of Rail and Public Transportation. The VRE is managed by the Chief Executive Officer, who is a contract employee of both Commissions. PRTC is the recipient of federal grants for the rail service and NVTC is the recipient of state grants for the rail service, with certain minor exceptions. All non-contract staff are employees of PRTC.

In accordance with the Master Agreement that created VRE, the Operations Board must prepare and submit a preliminary annual budget to the Commissions and the contributing and participating jurisdictions by September 30 of the preceding fiscal year for review and comment. A final recommended budget is prepared by December 1 for consideration by the Operations Board and the Commissions by February 1, followed by transmittal to the jurisdictions for appropriation. In addition, the Operations Board is required to have an annual audit performed of the financial activities related to the commuter rail service.

Economic Conditions

Major Initiatives

During fiscal year 2016, VRE focused on improving systems that would ensure the financial health and operational safety of the rail service and allow for expansion as opportunities and funding become available.

Seven new Gallery rail cars were delivered in fiscal year 2016, which completed the replacement of the legacy equipment. VRE placed an order for the construction of five Gallery rail cars in fiscal year 2015 and ordered an additional nine rail cars in fiscal year 2016. These fourteen rail cars will allow expansion of the VRE service, primarily through the lengthening of existing trains.

During fiscal year 2016 a third main track between Hamilton and Crossroads in Spotsylvania County and the VRE Spotsylvania station were completed and placed in service. The station in Spotsylvania consists of a 1,500-space parking lot, station building with bathroom facilities, and a 700-foot platform with canopy and represents the first extension of VRE commuter rail service since operations began in 1992. Substantial work occurred on the installation of Positive Train Control (PTC) devices on VRE's locomotives and cab cars. In addition, design work proceeded for the construction of a pedestrian tunnel at the Alexandria train station between the two station platforms and continuing to the adjacent WMATA King Street Station, and for the construction of the Lifecycle Overhaul and Upgrade Facility at the Crossroads maintenance and storage yard. Future projects include the construction of platform improvements and second platforms at six VRE stations and the replacement of the mid-day storage facility in Washington D.C.

VRE launched its mobile ticketing system at the end of fiscal year 2015. Passengers present tickets purchased on mobile devices to conductors for visual inspection, similar to the current process for paper tickets. By the end of fiscal year 2016, the mobile ticketing system accounted for 17 percent of monthly revenue and 25 percent of monthly ticket sales.

Long-Term Financial Planning

In order to help prioritize future needs and address potential future growth, the VRE System Plan 2040 was prepared and adopted by the VRE Operations Board in January 2014. The plan assesses the future long-term ridership demand for VRE service and identifies the service expansions and capital investments necessary to accommodate demand. As such, it provides a framework for VRE system investments and actions VRE should pursue through 2040 to best meet regional travel needs. The investments recommended in the System Plan are grouped into three phases between now and 2040. Phase I includes investments that will maximize the capacity of the existing VRE system. Phases II and III focus on major investments to expand system capacity to support long-range service expansion.

During fiscal year 2016, a companion Financial Plan was completed that identified all costs and revenues associated with System Plan 2040 and several alternate service and capital investment profiles during the same timeframe. This Financial Plan will form the basis for the ongoing annual development of the VRE capital program in future years. The annual budget includes both a multi-year capital program and a six-year forecast of revenue, expenses, and funding sources.

In December 2011, a Transit Development Plan (TDP) was prepared, funded by the Virginia Department of Rail and Public Transportation (DRPT) to comply with DRPT requirements for recipients of state transit operating and capital assistance and to assist the agency in preparing inputs to the state Six-Year Improvement Program (SYIP) for transportation. The Plan is updated annually to reflect current agency priorities and costs and to extend the TDP financial plan an additional year to maintain a six-year planning horizon.

Financial Environment

As highways become even more crowded, commuters have been drawn to the commuter rail system. VRE ridership remains strong due to investments in new equipment and excellent on-time performance. Although subsidy funds are constrained, VRE continues to work with regional, state, and federal partners to find additional revenue sources. As a result, future VRE budgets will reflect a balance between meeting service needs, setting fares at a reasonable price, and incorporating new funding sources into the strategic direction set by the Operations Board and the Commissions.

The focus of the VRE Operations Board and VRE management continues to be the provision of safe, reliable commuter rail service to the citizens of Northern Virginia. Public transit continues to play a vital role in addressing the areas need to reduce congestion and improve air quality. VRE enhances regional mobility by removing the estimated equivalent of one full lane of traffic on both Interstate 95 and Interstate 66 during peak periods and improves air quality by reducing an estimated 50,000 metric tons of Carbon Dioxide and other emissions each year.

Awards and Acknowledgement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Virginia Railway Express for its comprehensive annual financial report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report could not have been prepared without the dedicated cooperation of the entire Finance staff. We would also like to thank the VRE Operations Board and the Commissions for their continued support in planning and conducting the financial operations of VRE in a responsible, progressive fashion.

Respectfully submitted,



Doug Allen
Chief Executive Officer



Donna Boxer, CPA
Chief Financial Officer

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. Gary Skinner, Spotsylvania County
Vice-Chairman	Hon. Paul Smedberg, City of Alexandria
Secretary	Hon. Maureen Caddigan, Prince William County
Treasurer	Hon. Sharon Bulova, Fairfax County

Members

Hon. John Cook, Fairfax County
Hon. Katie Cristol, Arlington County
Hon. John Jenkins, Prince William County
Hon. Matt Kelly, City of Fredericksburg
Hon. Paul Milde, Stafford County
Jennifer Mitchell, VDRPT
Hon. Suhas Naddoni, City of Manassas Park
Hon. Marty Nohe, Prince William County
Hon. Bob Thomas, Stafford County
Jonathan Way, City of Manassas

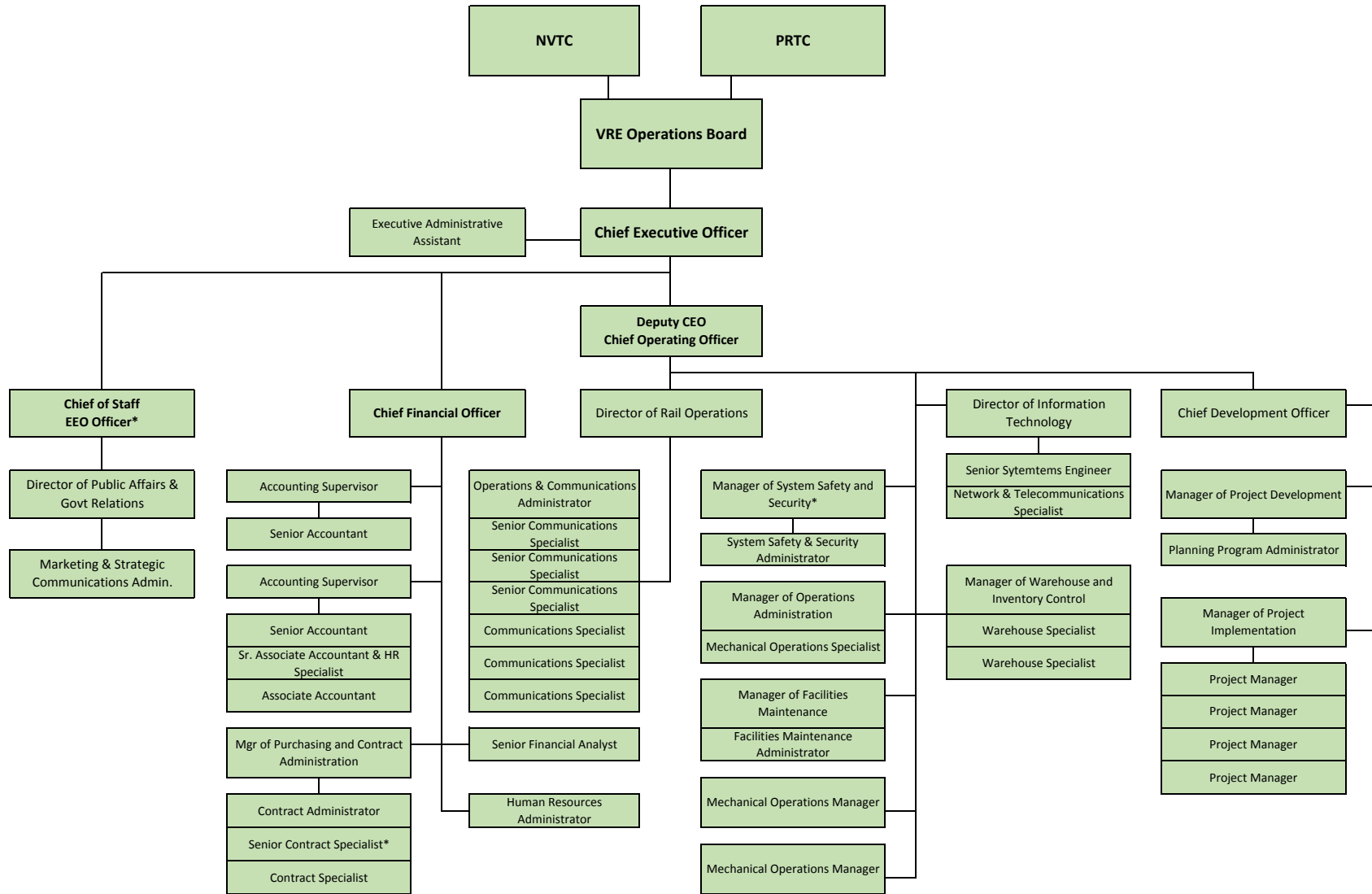
Alternates

Hon. Marc Aveni, City of Manassas
Pete Burrus, VDRPT
Hon. Jay Fisette, Arlington County
Hon. Frank Jones, City of Manassas Park
Hon. Jeanine Lawson, Prince William County
Hon. Wendy Maurer, Stafford County
Hon. Jeff McKay, Fairfax County
Hon. Paul Trampe, Spotsylvania County
Vacant, City of Alexandria
Hon. William Withers, City of Fredericksburg

Management

Chief Executive Officer	Doug Allen
Deputy CEO & Chief Operating Officer	Richard Dalton
Chief of Staff	Joe Swartz
Chief Financial Officer	Donna Boxer, CPA
Chief Development Officer	Tom Hickey
Director, Rail Operations	Chris Henry

**Virginia Railway Express
Organizational Chart
October 1, 2016**



* Manager of Safety and Security reports to the CEO in matters related to safety and security
 Senior Contract Specialist reports to the CEO in matters related to their duties as DBE liason
 Chief of Staff reports to the CEO in matters related to EEO

Financial Section





INDEPENDENT AUDITOR'S REPORT

To the Honorable Operations Board Members and Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Railway Express (VRE), a joint venture of the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the VRE'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of VRE, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 8-16 and 49-50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise VRE's basic financial statements. The introductory section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016 on our consideration of the VRE'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 VRE's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
November 8, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the Virginia Railway Express' activities and performance provides the reader with an introduction and overview of the financial statements of the Virginia Railway Express (VRE) for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages 1-3 of this report and the financial statements, which begin on page 17.

Financial Operations and Highlights

- Operating revenues increased by 2.2 percent compared to the prior year, from \$37,118,670 to \$37,936,965. Ridership decreased 3.8 percent from 4,618,169 to 4,441,858, reflecting historically low gas prices, the completion of several major highway projects and the general trend toward teleworking. Revenue increased despite a decrease in ridership as the result of a 4.0 percent fare increase in fiscal year 2016 and a shift in passenger ticket preferences for a variety of reasons including an increase to the federal transit benefit in January 2016.
- Operating expenses increased by 6.5 percent from \$65,637,194 to \$69,874,826, as the result of regular contractual increases; the new train added mid-year; grant funded expenses for asset management and the Gainesville-Haymarket study; and the addition of three new positions.
- Non-operating revenue increased by 7.0 percent from \$44,521,769 to \$47,624,400 primarily as the result of an increase to the state operating assistance grant and grant funding for asset management and the Gainesville-Haymarket study, as noted above.
- Capital grants and assistance decreased by 2.2 percent from \$33,538,921 to \$32,803,548 as a result of the delivery of seven grant funded railcars, compared to eight in the prior year, and the completion of work on a grant funded track project.
- The operating loss before depreciation was \$31,937,861, an increase from the previous year of 12.0 percent. Local, federal, and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net position increased by \$26,268,815 from \$314,784,444 to \$341,053,259, primarily as the result of grants and contributions for capital improvements. At the end of the fiscal year, unrestricted net position was \$55,697,393, an increase of \$5,485,573.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, increased by 5.1 percent, as the combined result of new project construction, the recognition of annual depreciation and amortization and the taking by eminent domain of land and improvements at the Woodbridge station Kiss and Ride facility.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Virginia Railway Express. VRE's basic financial statements also include notes that provide more detail for some of the information contained in the basic statements.

Basic Financial Statements. VRE's statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to an enterprise using the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

VRE's basic financial statements are the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. Comparative data for the prior fiscal year is provided for all three statements.

The Statements of Net Position reports VRE's net position, the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is one way to measure financial position, but the reader should also consider other indicators, such as the rate of growth of operating subsidies, passenger fare levels, ridership, general economic conditions, and the age and condition of capital assets.

The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues earned and expenses incurred during the reporting periods.

The Statements of Cash Flows provide information on cash receipts and cash payments during the reporting periods.

The basic financial statements can be found on pages 17-20 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21-48 of this report.

Financial Analysis

Statements of Net Position

As noted earlier, net position may serve over time as an indicator of financial strength, although other indicators should be considered as well. A condensed summary of VRE's Statements of Net Position at June 30, 2016, 2015, and 2014 is shown below.

Condensed Statements of Net Position

	2016	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current and other assets	\$ 81,123,071	\$ 74,796,036	\$ 74,448,857
Capital assets, net	343,924,549	327,209,068	302,858,587
Deferred outflows of resources	319,010	244,793	-
Total assets and deferred outflows of resources	425,366,630	402,249,897	377,307,444
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Current portion of long-term debt	3,503,033	3,336,076	9,729,549
Other current liabilities	13,847,188	13,583,499	10,015,017
Noncurrent liabilities	66,780,894	70,144,263	73,334,759
Deferred inflows of resources	182,256	401,615	-
Total liabilities and deferred inflows resources	84,313,371	87,465,453	93,079,325
NET POSITION:			
Net investment in capital assets	274,136,653	254,085,092	220,069,396
Restricted	11,219,213	10,487,532	17,185,337
Unrestricted	55,697,393	50,211,820	46,973,386
Total net position	\$ 341,053,259	\$ 314,784,444	\$ 284,228,119

Current Year

Net position increased by approximately \$26.3 million, or 8.3 percent during the current fiscal year, due mainly to capital contributions used to fund system improvements.

The largest portion of VRE's net position, \$274.1 million or 80.4 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment, software, and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

Restricted net position increased approximately \$0.7 million or 7.0 percent because of restricted funds related to the transfer of land and improvements at the Woodbridge VRE station to the Virginia Department of Transportation (VDOT). A portion of VRE's restricted net position, \$11.2 million, represents resources that are restricted for the liability insurance plan.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$16.7 million or 5.1 percent as the result of the delivery of seven railcars, the installation of PTC equipment on VRE locomotives and cab cars, and the construction of the Hamilton to Crossroads third main track project.

Current liabilities increased approximately \$0.4 million or 2.5 percent as the result of minor changes in various line items.

Noncurrent liabilities decreased approximately \$3.6 million or 5.1 percent because of scheduled note and capital lease repayments during the year.

Prior Year

Net position increased by approximately \$30.6 million, or 10.8 percent during fiscal year 2015, due mainly to capital contributions that were used to fund system improvements.

The largest portion of VRE's net position, \$254 million or 80.7 percent, represents its investment in capital assets, less the related indebtedness outstanding used to acquire those capital assets. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net position, \$10.5 million or 3.3 percent, represents resources that are restricted for the liability insurance plan.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$24.4 million or 8.0 percent as the result of the delivery of eight additional railcars and the construction of the Hamilton to Crossroads third main track project.

Current liabilities decreased approximately \$2.8 million or 14.3 percent as the result of the repayment of the remaining revenue bonds on July 1, 2014 and an increase to contract retainage for ongoing capital projects.

Noncurrent liabilities decreased approximately \$3.2 million or 4.4 percent because of scheduled note repayments during the year.

Restricted net position decreased approximately \$6.7 million or 39.0 percent because of the repayment of the remaining revenue bonds on July 1, 2014.

Statements of Revenues, Expenses and Changes in Net Position

The following financial information was derived from the Statements of Revenues, Expenses and Changes in Net Position and reflects how VRE's net position changed during the current and two prior fiscal years.

	2016	2015	2014
Operating revenues:			
Passenger revenue	\$ 37,696,913	\$ 36,700,191	\$ 37,093,476
Equipment rentals and other	240,052	418,569	197,915
Total operating revenues	37,936,965	37,118,760	37,291,391
Nonoperating revenues:			
Subsidies:			
Commonwealth of Virginia	16,572,077	14,401,957	19,330,105
Federal – with PRTC as grantee	13,917,534	13,688,723	15,931,876
Jurisdictional contributions	16,428,800	16,456,986	16,428,800
Regional transportation funding (NVTA)	542,671	-	-
Interest income	163,318	34,396	28,056
Gain (loss) on disposal of assets	-	(60,293)	1,500
Total nonoperating revenues, net	47,624,400	44,521,769	51,720,337
Total revenues	85,561,365	81,640,529	89,011,728
Operating expenses:			
Contract operations and maintenance	24,082,615	22,782,752	23,151,332
Other operations and maintenance	13,662,606	14,334,954	14,891,502
Property leases and access fees	15,175,732	14,318,788	13,924,017
Insurance	4,046,198	3,964,673	3,991,969
Marketing and sales	2,393,332	2,267,729	2,012,321
General and administrative	10,514,343	7,968,298	7,793,040
Total operating expenses	69,874,826	65,637,194	65,764,181
Other expenses:			
Depreciation and amortization	16,953,565	15,391,195	14,706,458
Interest, financing costs and other	3,384,762	3,534,644	4,026,724
Total other expenses	20,338,327	18,925,839	18,733,182
Total expenses	90,213,153	84,563,033	84,497,363
Excess (deficit) before capital contributions and extraordinary item	(4,651,788)	(2,922,504)	4,514,365
Capital grants and assistance:			
Commonwealth of Virginia grants	9,826,429	14,694,277	2,464,628
Federal grants – with PRTC as grantee	22,125,460	17,764,759	5,420,552
In-kind and other local contributions	851,659	1,079,885	2,637,809
Total capital grants and assistance	32,803,548	33,538,921	10,522,989
Extraordinary item	(1,882,945)	-	(3,660,786)
Change in net position	26,268,815	30,616,417	11,376,568
Net position – beginning of year, as restated	314,784,444	284,168,027	272,851,551
Net position – end of year	\$ 341,053,259	\$ 314,784,444	\$ 284,228,119

The earliest year presented has not been restated for implementation of GASB Statements No. 68 and 71 in fiscal year 2015 due to the lack of available information.

Revenues

Current Year

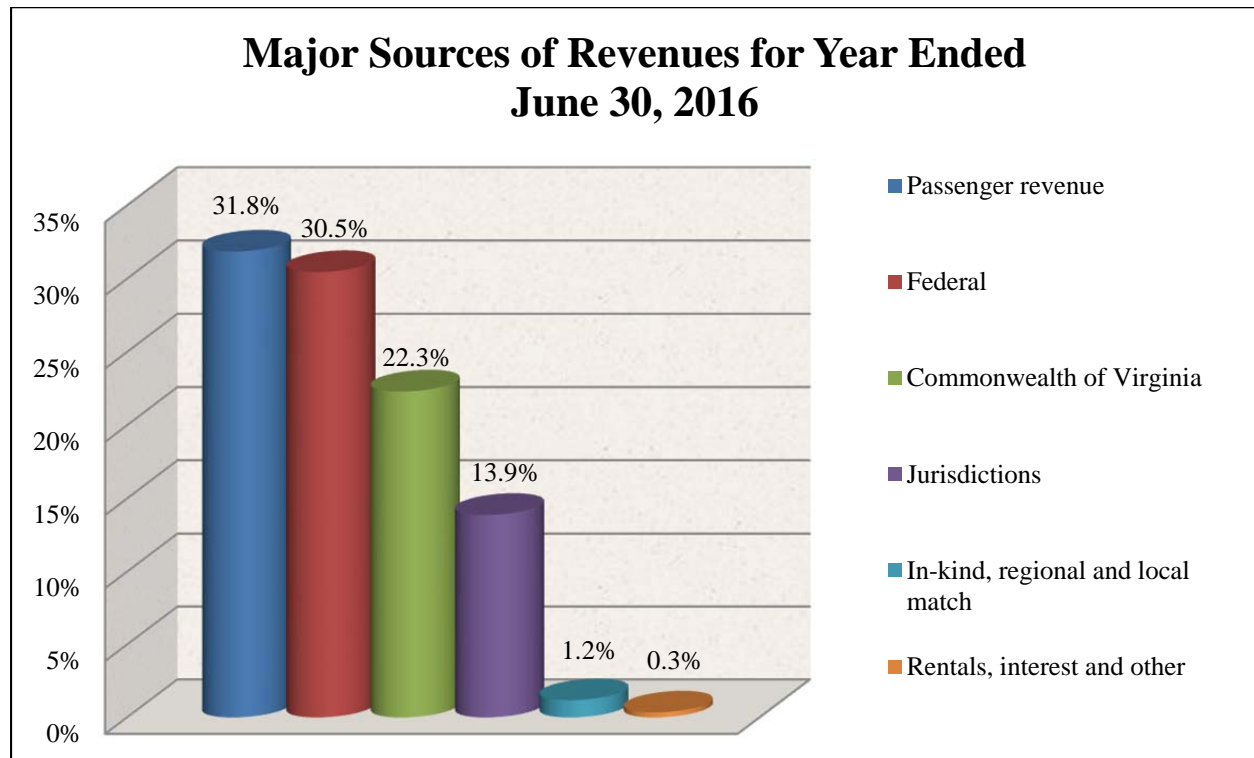
Total revenues for the current fiscal year increased approximately \$3.9 million or 4.8 percent. Operating revenues totaled approximately \$37.9 million, an increase of 2.2 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs decreased by approximately \$28,000. State, federal and regional subsidies increased by \$2.9 million, primarily as the result of an increase to the state operating assistance grant and grant funding for asset management and the Gainesville-Haymarket study.

Passenger revenue increased approximately \$1.0 million or 2.7 percent, reflecting a 4.0 percent fare increase implemented at the beginning of the fiscal year. Ridership decreased by 3.8% as the result of a variety of factors, including historically low gas prices, the completion of several major highway projects, fluctuating monthly transit benefits and the increase in telework. The decrease in ridership was offset by the increase in fares.

	June 30,		
	2016	2015	2014
Ridership	4,441,858	4,618,169	4,547,911
% Increase (Decrease)	(3.8%)	1.5%	(2.1%)

Capital grants and assistance decreased approximately \$0.7 million or 2.2 percent; this decrease is attributed primarily to capital grant reimbursement activity related to the delivery of seven railcars, compared to eight delivered the prior year, and the completion of work on the Hamilton to Crossroads third main track project.

The following chart shows the major sources of revenues for the year ended June 30, 2016:



Prior Year

Total revenues for the current fiscal year decreased approximately \$7.4 million or 8.3 percent. Operating revenues totaled approximately \$37.1 million, a decrease of 0.5 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs increased by approximately \$28,000. State and federal subsidies decreased by \$7.2 million, primarily as the result of a decrease to the state operating grant, and decreases to grant funding for debt service, access fees and station and yard repair projects. Passenger revenue decreased approximately \$0.4 million or 1.1 percent, despite a small increase in ridership, due primarily to a decrease in the maximum employer provided monthly transit benefit from \$245 to \$130 in January 2014.

Capital grants and assistance increased approximately \$23.0 million or 218.7 percent; this increase is attributed primarily to capital grant reimbursement activity related to the delivery of eight railcars and substantial work on the Hamilton to Crossroads third main track project.

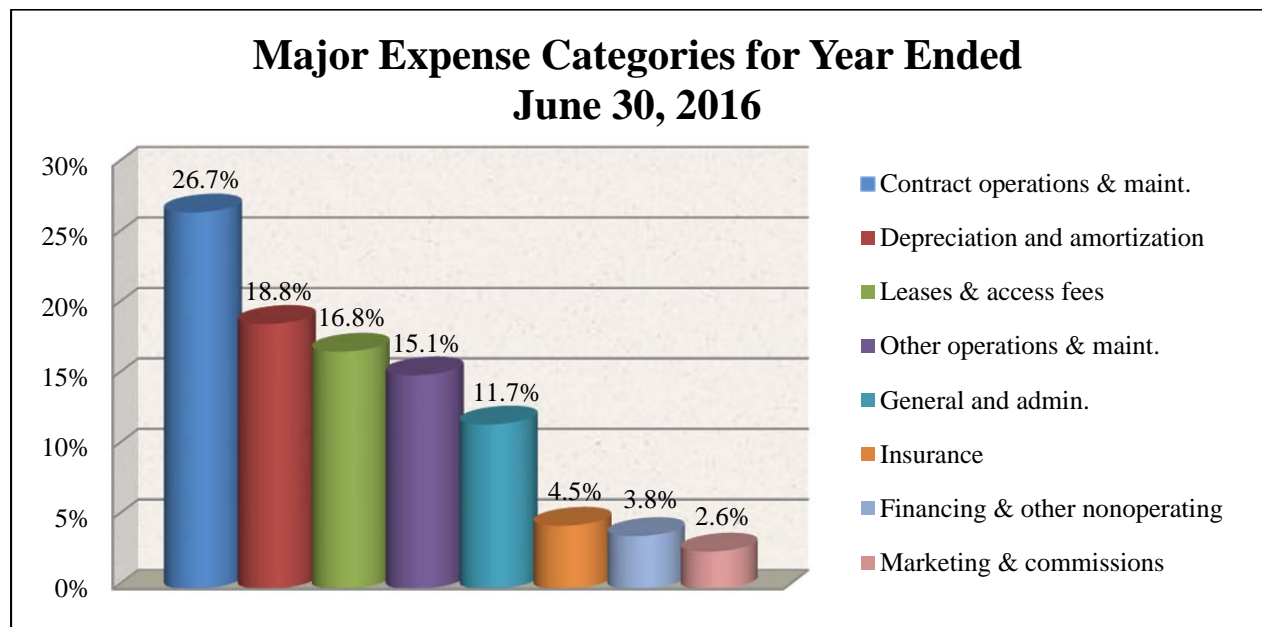
Expenses

Current Year

Total operating and other expenses, including depreciation and amortization, increased by approximately \$5.7 million or 6.7 percent. Operating expenses increased by approximately \$4.2 million or 6.5 percent. Total operating expenses were approximately \$69.9 million compared to \$65.6 million for the prior fiscal year.

Contract operations and maintenance increased by approximately \$1.3 million or 5.7 percent, reflecting the addition of a new train, regular contractual increases and enhancements to train operations and maintenance services. Property lease and access fee costs increased by approximately \$0.9 million or 6.0 percent as the result of regular contractual increases and the addition of a new train mid-year. Other operations and maintenance costs decreased by \$0.7 million or 4.7 percent due primarily to a decrease in fuel costs. General and administrative costs increased by \$2.5 million or 32.0 percent due to the addition of six staff positions, three of which were formerly part of contract operations, and an increase in professional services including a management audit and grant funded expenses related to the Gainesville-Haymarket study. Depreciation and amortization increased by approximately \$1.6 million or 10.2 percent and net interest and financing costs decreased by approximately \$0.2 million or 4.2 percent.

The following chart shows the major expense categories for the year ended June 30, 2016:



Prior Year

Total operating and other expenses, including depreciation and amortization, increased by approximately \$0.65 million or 0.1 percent. Operating expenses decreased by approximately \$127,000 or 0.2 percent. Total operating expenses were approximately \$65.6 million compared to approximately the same number for the prior fiscal year.

Property lease and access fee costs increased by approximately \$0.39 million or 2.8 percent as the result of regular contractual increases. Other operations and maintenance costs decreased by \$0.56 million or 3.7 percent due to a decrease in fuel costs and a reclassification to expense in the prior fiscal year. Contract operations and maintenance decreased by \$0.37 million or 1.6 percent due to regular contractual increases, and a canopy repair project during the prior fiscal year. General and administrative costs increased by \$0.18 million or 2.2 percent due to the addition of two staff positions formerly part of contract operations, the cost of additional office space added mid-year, higher legal fees and a reclassification to expense in the prior fiscal year. Marketing, sales and commissions increased by \$0.3 million or 12.7 percent due to an increase in credit and debit fees and marketing production costs. Depreciation and amortization increased by approximately \$0.7 million or 4.7 percent and net interest and financing costs decreased by \$0.5 million or 12.2 percent.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2016 amounts to \$344 million (net of accumulated depreciation and amortization). Investment in capital assets includes the items identified in the table below. Acquisitions are funded using a variety of financing techniques, including loans and grants from various government agencies and other local sources.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Rolling stock	\$ 264,755,076	\$ 249,295,961	\$ 228,936,835
Vehicles	138,310	107,199	78,664
Facilities	103,494,551	102,449,961	102,449,961
Track and signal improvements	84,700,564	52,684,367	52,684,367
Equipment and software	12,126,666	11,996,876	10,342,844
Construction in progress	13,896,672	29,040,586	13,638,856
Equity in property of others	5,787,287	5,787,287	5,787,287
Furniture, equipment and software	5,489,336	5,443,390	5,514,546
	<u>490,388,462</u>	<u>456,805,627</u>	<u>419,433,360</u>
Less accumulated depreciation and amortization	<u>(146,463,913)</u>	<u>(129,596,559)</u>	<u>(116,574,773)</u>
Total capital assets, net	<u>\$ 343,924,549</u>	<u>\$ 327,209,068</u>	<u>\$ 302,858,587</u>

Current Year

During fiscal year 2016, capital assets increased approximately \$16.7 million or 5.1 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$51.5 million were transferred from construction in progress to their respective capital accounts and an additional \$0.3 million was charged directly to the capital accounts. Land and improvements associated with the Kiss and Ride facility at the Woodbridge station with a net book value of \$2.9 million were transferred to the Virginia Department of Transportation (VDOT).

The major completed projects were the purchase of seven Gallery rail cars (\$15.5 million), the construction of the Spotsylvania VRE station (\$4.1 million), and the construction of a third track between Hamilton and Crossroads in Spotsylvania County (\$32.0 million). The major additions to construction in progress during the fiscal year were the installation of Positive Train Control equipment in VRE's locomotives and cab cars (\$6.3 million), the design of a life-cycle maintenance facility at the VRE Crossroad Yard (\$1.9 million), the design of a pedestrian tunnel at the Alexandria VRE station (\$0.9 million), and the construction of a storage track north of the L'Enfant VRE station (\$0.7 million).

Additional information on VRE's capital assets and contractual commitments can be found in Notes 3 and 9 to the financial statements.

Prior Year

During fiscal year 2015, capital assets increased approximately \$24.4 million or 8.0 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$24.1 million were transferred from construction in progress to their respective capital accounts and an additional \$0.25 million was charged directly to the capital accounts.

The major completed projects were the purchase of eight Gallery rail cars (\$22.5 million), and the implementation of phase one of the mobile ticketing system (\$1.4 million). The major additions to construction in progress during the fiscal year were for the construction of a third track between Hamilton and Crossroads in Spotsylvania County (\$12.8 million); the construction of the Spotsylvania VRE station (\$2.2 million); and the construction of a pedestrian tunnel at the Alexandria VRE station (\$0.7 million).

Debt Administration

At June 30, 2016, VRE had total debt outstanding of \$69,787,896. The revenue bonds debt, which was retired in fiscal year 2014, was issued under the name of the Northern Virginia Transportation Commission (NVTC). The bonds were secured by a pledge of VRE revenue, and a debt service insurance policy guaranteed payment of each bond series.

The Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC) are co-lessees of the capital lease for rolling stock, which is secured by the related equipment. The promissory note with the Federal Railroad Administration for the purchase of 60 Gallery railcars was issued by NVTC, but both NVTC and PRTC are signatories. The note is secured by the revenues of VRE and the rolling stock. The capital leases for three multifunction copiers are secured by the related equipment.

	2016	2015	2014
Revenue bonds	\$ -	\$ -	\$ 6,555,000
Capital leases	14,158,954	15,414,117	16,535,611
Note payable	55,628,942	57,709,856	59,698,580
Total	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191

Economic Factors and Next Year's Budget

Population growth in Northern Virginia, especially in the outer suburbs, continues to remain robust. In combination with the congestion on major highways and on-going highway construction projects, this growth will continue to increase demand for VRE's service. The constraining factors to VRE growth are station parking, availability of seats, storage capacity, and the availability of subsidy funds.

The local subsidy for fiscal year 2017 increased by 5.0 percent to \$17,250,240. Fares were held constant; the last general fare increase was 4.0 percent in fiscal year 2016. Additional sources of funding will be available in fiscal year 2017 from federal, state and regional sources, although the amounts received will continue to vary from year to year.

Requests for Information

This financial report is designed to provide a general overview of VRE's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Virginia Railway Express, 1500 King Street, Alexandria, Virginia 22314-2730 or by e-mail to dboxer@vre.org.

Basic Financial Statements

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 28,026,242	\$ 32,291,442
Accounts receivable:		
Due from PRTC – FTA and other	28,642,153	12,289,014
Commonwealth of Virginia grants	5,262,372	12,979,624
Trade receivables, net of allowance for doubtful accounts	2,180,277	1,705,049
Other receivables	1,448,130	752,881
Inventory	3,992,249	3,899,680
Prepaid expenses and other	138,636	122,934
Restricted cash, cash equivalents and investments	11,219,213	10,487,532
Total current assets	80,909,272	74,528,156
Noncurrent Assets:		
Pension asset	213,799	267,880
Capital assets:		
Rolling stock	264,755,076	249,295,961
Vehicles	138,310	107,199
Facilities	103,494,551	102,449,961
Track and signal improvements	84,700,564	52,684,367
Equipment and software	12,126,666	11,996,876
Construction in progress	13,896,672	29,040,586
Equity in property of others	5,787,287	5,787,287
Furniture, equipment and software	5,489,336	5,443,390
	490,388,462	456,805,627
Less accumulated depreciation and amortization	(146,463,913)	(129,596,559)
Total capital assets, net	343,924,549	327,209,068
Total noncurrent assets	344,138,348	327,476,948
Total assets	425,047,620	402,005,104
Deferred Outflows of Resources:		
Pension plan	319,010	244,793
Total deferred outflows of resources	319,010	244,793
Total assets and deferred outflows of resources	\$ 425,366,630	\$ 402,249,897

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

	2016	2015
Current Liabilities:		
Accounts payable	\$ 3,467,440	\$ 3,785,342
Payable to Commissions	1,892,459	1,602,631
Compensated absences	24,616	30,373
Accrued expenses	5,155,909	4,909,394
Accrued interest	218,401	232,340
Unearned revenue	1,687,689	1,550,545
Contract retainage	1,400,674	1,472,874
Current portion of capital lease obligations	1,314,250	1,255,162
Current portion of note payable	2,188,783	2,080,914
	<hr/>	<hr/>
Total current liabilities	17,350,221	16,919,575
Noncurrent Liabilities:		
Capital lease obligations	12,844,704	14,158,955
Note payable	53,440,159	55,628,942
Compensated absences	496,031	356,366
	<hr/>	<hr/>
Total noncurrent liabilities	66,780,894	70,144,263
	<hr/>	<hr/>
Total liabilities	84,131,115	87,063,838
Deferred Inflows of Resources:		
Pension plan	182,256	401,615
	<hr/>	<hr/>
Total deferred inflows of resources	182,256	401,615
Net Position:		
Net investment in capital assets	274,136,653	254,085,092
Restricted for liability insurance plan	10,439,990	10,487,532
Restricted grants or contributions	779,223	-
Unrestricted assets	55,697,393	50,211,820
	<hr/>	<hr/>
Total net position	341,053,259	314,784,444
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	\$ 425,366,630	\$ 402,249,897

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Passenger revenue	\$ 37,696,913	\$ 36,700,191
Equipment rentals and other	240,052	418,569
Total operating revenues	37,936,965	37,118,760
Operating Expenses:		
Contract operations and maintenance	24,082,615	22,782,752
Other operations and maintenance	13,662,606	14,334,954
Property leases and access fees	15,175,732	14,318,788
Insurance	4,046,198	3,964,673
Marketing and sales	2,393,332	2,267,729
General and administrative	10,514,343	7,968,298
Total operating expenses	69,874,826	65,637,194
Operating loss before depreciation and amortization	(31,937,861)	(28,518,434)
Depreciation and amortization	(16,953,565)	(15,391,195)
Operating loss	(48,891,426)	(43,909,629)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	16,572,077	14,401,957
Federal grants – with PRTC as grantee	13,917,534	13,688,723
Jurisdictional contributions	16,428,800	16,456,986
Regional transportation funding (NVT A)	542,671	-
Interest income:		
Operating funds	93,677	34,337
Insurance trust	69,444	-
Other restricted funds	197	59
Loss on disposal of assets	-	(60,293)
Interest, amortization and other nonoperating expenses, net	(3,384,762)	(3,534,644)
Total nonoperating revenues, net	44,239,638	40,987,125
Capital Grants and Assistance:		
Commonwealth of Virginia grants	9,826,429	14,694,277
Federal grants – with PRTC as grantee	22,125,460	17,764,759
Local contributions	851,659	1,079,885
Total capital grants and assistance	32,803,548	33,538,921
Extraordinary Item (Note 3)	(1,882,945)	-
Change in net position	26,268,815	30,616,417
Net Position, beginning of year	314,784,444	284,168,027
Net Position, ending	\$ 341,053,259	\$ 314,784,444

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from customers	\$ 37,541,707	\$ 36,812,794
Payments to suppliers	(63,273,673)	(60,427,250)
Payments to employees	(5,901,952)	(4,223,127)
Net cash used in operating activities	(31,633,918)	(27,837,583)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	47,042,685	38,917,943
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(37,385,091)	(37,039,637)
Capital grants and assistance	23,947,985	27,603,425
Proceeds from sale of capital assets	1,066,280	3,000
Principal paid on capital lease obligations	(1,255,163)	(1,194,919)
Principal paid on notes	(2,080,914)	(1,988,724)
Principal paid on bonds	-	(6,555,000)
Interest paid on capital lease obligation	(690,478)	(745,532)
Interest paid on bonds and notes	(2,708,223)	(2,978,310)
Net cash used in capital and related financing activities	(19,105,604)	(22,895,697)
Cash Flows From Investing Activities:		
Interest received on investments	163,318	34,396
Decrease in cash and cash equivalents	(3,533,519)	(11,780,941)
Cash and Cash Equivalents, beginning	42,778,974	54,559,915
Cash and Cash Equivalents, ending	\$ 39,245,455	\$ 42,778,974
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	\$ (48,891,426)	\$ (43,909,629)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	16,953,565	15,391,195
Pension (benefit) expense	(239,496)	73,643
Loss on disposal of assets	-	(63,293)
(Increase) decrease in:		
Accounts receivable	(475,228)	(68,728)
Other receivables	(57,175)	(14,928)
Inventory	(92,569)	(260,327)
Prepaid expenses and other	(15,702)	48,911
Increase (decrease) in:		
Accounts payable and accrued expenses	1,046,967	1,187,883
Unearned revenue	137,146	(222,310)
Net cash used in operating activities	\$ (31,633,918)	\$ (27,837,583)
Schedule of Noncash Capital Activities:		
Capital assets acquired through accounts payable	\$ 1,535,746	\$ 1,662,206
Capital assets acquired through accrued liabilities	2,454,557	3,022,716
Capital assets acquired through capital leases	-	73,425

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Virginia Railway Express (VRE) is accounted for as a joint venture of the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Pursuant to a Master Agreement signed in 1989, NVTC and PRTC (the Commissions) jointly own and operate VRE. VRE provides commuter rail service on two railroad lines, one originating in Fredericksburg and one originating in Manassas, Virginia, and both terminating at Union Station, Washington, D.C. The service uses existing tracks of the CSX Transportation Corporation (CSX), and the Norfolk Southern Railway Company, under respective operating access agreements. Trains are operated and maintained pursuant to an agreement between the Commissions and Keolis Rail Services Virginia, LLC and Amtrak provides the Commissions with access to storage at Union Station and other services.

Assets for VRE operations have been purchased in the name of the Commissions and funded primarily by grants, loans or other financing arrangements for which one or both Commissions have served as grantee, issuer, borrower, or in other related capacities. In order to present a full and accurate picture of VRE operations and in accordance with the Master Agreement and related Appendices that established VRE, all financial transactions related to the commuter rail program are combined in this report. In addition, an allocation of the VRE assets, liabilities and operations are reflected in the financial reports of the Commissions based on asset ownership, named entity on debt instruments, and sources of funding.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, lease financing, Federal (with PRTC as grantee) and Commonwealth of Virginia grants (with NVTC as grantee), and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia.

In July 2007, the Commissions adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions and provided for board representation proportionate to system ridership, and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the former 90 percent system ridership and 10 percent population formula. The amendment to the subsidy formula was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

VRE prepares its financial statements using the accrual basis of accounting. The activities of VRE are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Revenues and expenses: VRE distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services in connection with VRE’s principal ongoing operation. The principal operating revenues of VRE are charges to customers which result in passenger revenues. Passenger revenues are recorded as revenue at the time services are performed. Cash received for services in advance is deferred until earned.

Operating revenues and expenses also include all revenues and expenses not associated with capital and related financing, noncapital financing, subsidies, or investing activities.

Revenue recognition: Intergovernmental revenues, consisting primarily of Federal (with PRTC as grantee) and Commonwealth of Virginia (with NVTC as grantee) grants, designated for payment of specific expenses, are recognized at the time the expenses are incurred. Capital grants and assistance are recognized as additions are made to capital assets and other contributions are included in the Statements of Revenues, Expenses and Changes in Net Position when expended. Any excess of grant revenues or expenses at year end are recorded as unearned revenue or accounts receivable, respectively.

Cash and investments: VRE considers all highly liquid investments with maturities of three months or less to be cash equivalents. Investments in U.S. government securities and commercial paper are carried at fair value based on quoted market prices. The investment in the Local Government Investment Pool (LGIP or Pool), a 2a7-like pool, is reported at the Pool’s share price.

Restricted cash and cash equivalents: Restricted cash, cash equivalents and investments of \$11,219,213 and \$10,487,532 at June 30, 2016 and 2015, respectively, are comprised of funds related to the balance in the Liability Insurance Plan, a small liability claims account, and undisbursed funds related to a property transfer.

Allowance for uncollectible accounts: VRE calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance was \$189,000 and \$184,000 at June 30, 2016 and 2015, respectively.

Inventory: VRE has purchased an inventory of spare parts for rolling stock that is maintained and managed at the Commission’s warehouse located at the Crossroads yard. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

Prepaid expenses: 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

Capital assets: For constructed assets, all costs necessary to bring assets to the condition and location necessary for the intended use are capitalized. Asset costs include allocation of certain common construction costs based on the relationship of associated direct costs. Assets constructed directly by jurisdictions in satisfaction of system financial responsibilities have been capitalized at the acquisition value as of the date of donation.

When assets are substantially complete and ready for use, these costs are transferred from construction in progress to property and equipment and depreciated or amortized. Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements and replacements are expensed.

Costs of improvements to track, stations and signal facilities owned by the railroads have been capitalized in recognition of the increased efficiency afforded VRE operations over their useful lives. The Commissions retain a residual interest in these assets such that net salvage value will be reimbursed by the railroads upon cessation of commuter rail service. Similarly, shared investment in jurisdictional facilities ("equity in property of others") recognizes the right of access for commuter rail patrons granted to the Commissions. This category also represents investment in Amtrak infrastructure and facilities that provides primary benefit to the commuter rail service and for which VRE has an expectation of continued use.

VRE capitalizes assets that have an initial cost of \$5,000 or more per unit and a useable life of two or more years, with the exception of software purchases, which are only capitalized if the initial cost is \$15,000 or more.

Interest is capitalized on qualifying construction in progress projects until the projects have reached the point of substantial completion. For those projects financed with tax-exempt debt, the amount of capitalized interest equals the difference between the interest cost associated with the borrowing to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized using the straight-line method over the useful life of the asset.

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

Rolling stock	8-25 years
Vehicles	5 years
Facilities	30-40 years
Track and signal improvements	30 years
Equipment and software	5 years
Equity in property of others	3-35 years
Furniture, equipment and software	3-10 years

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 and 2015.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

Compensated absences: VRE employees are granted vacation leave based on length of employment. Employees with less than ten years of service may carry over a total of 225 hours of leave from year to year, while those with more than ten years may carry over 300 hours. Excess leave may convert to sick leave or may be paid out with the approval of the Chief Executive Officer. Employees may accumulate sick leave without limitation. Employees who separate in good standing after five or more years of service will be paid for 25 percent of their sick leave credit in excess of 450 hours. Certain employees may accumulate compensatory leave for overtime worked. Compensated absences are accrued when incurred.

Deferred outflows/inflows of resources: In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. VRE currently has two items that qualify for reporting in this category. Accordingly, pension contributions is reported as a deferred outflow of resources.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. VRE has only one item that qualifies for reporting in this category. Accordingly, earnings on pension plan investments is reported as a deferred inflow of resources.

Pensions: For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) VRE's Retirement Plan and the additions to/deductions from the VRS VRE's Retirement Plan net fiduciary position have been determined on the same basis as they were reported by 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. Since VRE is combined with PRTC for reporting purposes to VRS, amounts and disclosures included in this report are for PRTC as a whole unless otherwise indicated.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: VRE has evaluated subsequent events through November 8, 2016, which was the date the financial statements were available to be issued.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Investments

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 (the “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 percent to 130 percent 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 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).

The VRE Operations Board has adopted a formal investment policy. The goal of the policy is to minimize risk and to ensure the availability of cash to meet VRE’s expenditures, while generating revenue from the use of funds which might otherwise remain idle. The primary objectives of VRE’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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents 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, VRE may not recover its deposits. All cash of VRE is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits 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 percent 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. At June 30, 2016 and 2015, the book balance of VRE's deposits with banks was \$8,558,996 and \$6,248,377, respectively.

Interest rate risk: In accordance with its investment policy, VRE 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: VRE'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:

Investment	Length of Maturity	Percent Allowed
Bonds, notes, and other evidence of indebtedness of the United States	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of the Commonwealth of Virginia	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth of Virginia	36 months or less	100%
Bonds and notes of FNMA and FHLB	36 months or less	75%
Savings accounts or CD's of any bank or savings and loan association within the Commonwealth of Virginia	12 months or less	20%
Money market mutual funds	13 months or less	60%
Repurchase agreements	24 months or less	20%
Bankers' acceptances	24 months or less	10%
Prime Quality Commercial Paper (no more than 5% from one issuer)	270 days or less	35%
High Quality Corporate Notes	24 months or less	50%
Certificates representing ownership in treasury bond principal	24 months or less	50%
LGIP	N/A	100%
Negotiable CD's and negotiable bank deposit notes	24 months or less	25%

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Investments (Continued)

At June 30, 2016 and 2015, VRE had investments of \$19,520,329 and \$26,095,952, respectively, in the LGIP. The LGIP is a professionally managed money market fund that invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at the Treasury Board's regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's.

The Commonwealth of Virginia Department of Treasury manages the VRE Insurance Trust. State statutes govern the portion of assets invested in the Commonwealth's pooled accounts, while the remainder is invested by an external portfolio manager. At June 30, 2016 and 2015, VRE had \$10,386,757 and \$10,434,495, respectively, invested in the Insurance Trust. From fiscal year 2011 through fiscal year 2015, any earnings on these investments were retained by the Commonwealth of Virginia. In fiscal year 2016, earnings on the Insurance Trust in the amount of \$69,444 were credited to VRE. The Insurance Trust Fund has not been assigned a rating.

As of June 30, 2016 and 2015, the carrying values and maturity of VRE's investments were as follows:

Investment Type	2016	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 19,520,329	\$ 19,520,329
Insurance trust fund – pooled funds	10,386,757	10,386,757
Total investments	\$ 29,907,086	\$ 29,907,086

Investment Type	2015	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 26,095,952	\$ 26,095,952
Insurance trust fund – pooled funds	10,434,495	10,434,495
Total investments	\$ 36,530,447	\$ 36,530,447

When applicable, VRE categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

VRE has no investments subject to fair value measurements as of June 30, 2016 and 2015.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

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

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 29,040,586	\$ 36,332,568	\$ -	\$ (51,476,482)	\$ 13,896,672
Capital assets being depreciated or amortized:					
Rolling stock	249,295,961	-	-	15,459,115	264,755,076
Vehicles	107,199	31,111	-	-	138,310
Facilities	102,449,961	26,808	(3,035,437)	4,053,219	103,494,551
Track and signal improvements	52,684,367	52,049	-	31,964,148	84,700,564
Equipment and software	11,996,876	129,790	-	-	12,126,666
Equity in property of others	5,787,287	-	-	-	5,787,287
Furniture, equipment and software	5,443,390	45,946	-	-	5,489,336
Total capital assets being depreciated or amortized	427,765,041	285,704	(3,035,437)	51,476,482	476,491,790
Less accumulated depreciation or amortization for:					
Rolling stock	59,423,583	10,093,426	-	-	69,517,009
Vehicles	78,801	11,534	-	-	90,335
Facilities	32,341,597	3,043,200	(86,211)	-	35,298,586
Track and signal improvements	21,439,935	2,325,307	-	-	23,765,242
Equipment and software	9,065,057	852,745	-	-	9,917,802
Equity in property of others	3,296,872	169,898	-	-	3,466,770
Furniture, equipment and software	3,950,714	457,455	-	-	4,408,169
Total accumulated depreciation or amortization	129,596,559	16,953,565	(86,211)	-	146,463,913
Total capital assets being depreciated or amortized, net	298,168,482	(16,667,861)	(2,949,226)	51,476,482	330,027,877
Totals	\$ 327,209,068	\$ 19,664,707	\$ (2,949,226)	\$ -	\$ 343,924,549

The chart above reflects the removal of \$2.9 million of facilities, the net book value of the land and improvements associated with the Kiss and Ride facility at VRE's Woodbridge station. During fiscal year 2016, the Virginia Department of Transportation (VDOT) took this facility by eminent domain for the purpose of widening Route 1 and reconstructing the Route 1/123 interchange. VDOT agreed to pay the Commissions the appraised value of \$1,066,280. At the time of the certificate of take, VDOT deposited \$799,223 with the Clerk of the Circuit Court of Prince William County for the benefit of the Commissions. Since the FTA (Federal Transit Administration) provided a portion of the funding for the land and improvements, the Commissions must return 80% of the appraised value to the FTA or use the funds for another eligible federal project. The loss on the disposition of this facility of \$1,882,945 is recorded as an extraordinary item in the financial statements.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 13,638,856	\$ 39,489,678	\$ -	\$ (24,087,948)	\$ 29,040,586
Capital assets being depreciated or amortized:					
Rolling stock	228,936,835	-	(2,117,830)	22,476,956	249,295,961
Vehicles	78,664	28,535	-	-	107,199
Facilities	102,449,961	-	-	-	102,449,961
Track and signal improvements	52,684,367	-	-	-	52,684,367
Equipment and software	10,342,844	43,040	-	1,610,992	11,996,876
Equity in property of others	5,787,287	-	-	-	5,787,287
Furniture, equipment and software	5,514,546	180,423	(251,579)	-	5,443,390
Total capital assets being depreciated or amortized	405,794,504	251,998	(2,369,409)	24,087,948	427,765,041
Less accumulated depreciation or amortization for:					
Rolling stock	52,206,709	9,334,704	(2,117,830)	-	59,423,583
Vehicles	67,652	11,149	-	-	78,801
Facilities	29,366,333	2,975,264	-	-	32,341,597
Track and signal improvements	19,648,232	1,791,703	-	-	21,439,935
Equipment and software	8,429,894	635,163	-	-	9,065,057
Equity in property of others	3,126,974	169,898	-	-	3,296,872
Furniture, equipment and software	3,728,979	473,314	(251,579)	-	3,950,714
Total accumulated depreciation or amortization	116,574,773	15,391,195	(2,369,409)	-	129,596,559
Total capital assets being depreciated or amortized, net	289,219,731	(15,139,197)	-	24,087,948	298,168,482
Totals	\$ 302,858,587	\$ 24,350,481	\$ -	\$ -	\$ 327,209,068

Note 4. 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 Within One Year
Capital leases	\$ 15,414,117	\$ -	\$ (1,255,163)	\$ 14,158,954	\$ 1,314,250
Note payable	57,709,856	-	(2,080,914)	55,628,942	2,188,783
	73,123,973	-	(3,336,077)	69,787,896	3,503,033
Compensated absences	386,739	350,805	(216,897)	520,647	24,616
	\$ 73,510,712	\$ 350,805	\$ (3,552,974)	\$ 70,308,543	\$ 3,527,649

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt Obligations (Continued)

Federal arbitrage regulations apply to the Gallery IV capitalized lease.

Capitalized Lease – Gallery IV (11 cars)

\$25,100,000 capitalized lease obligation; \$965,679 due semi-annually, including interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$17,449,718. \$ 14,108,906

Future minimum lease payments as of June 30, 2016 are as follows:

Year(s) Ending June 30,	Amount
2017	\$ 1,931,357
2018	1,931,357
2019	1,931,357
2020	1,931,357
2021	1,931,357
2022-2025	<u>7,725,428</u>
Total minimum lease payments	17,382,213
Less amount representing interest	<u>3,273,307</u>
Present value of lease payments	<u>\$ 14,108,906</u>

Capitalized Lease – Copiers

\$73,425 capitalized lease obligations; \$1,329 due monthly, including interest at 9.39%, maturing in 2020; \$330 due monthly, including interest at 11.73%, maturing in 2018, collateralized with three multifunction copiers with a carrying value of \$41,395. \$ 50,048

Future minimum lease payments as of June 30, 2016 are as follows:

Year Ending June 30,	Amount
2017	\$ 19,908
2018	19,248
2019	15,948
2020	<u>2,658</u>
Total minimum lease payments	57,762
Less amount representing interest	<u>7,714</u>
Present value of lease payments	<u>\$ 50,048</u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt Obligations (Continued)

Note Payable – Gallery IV (60 cars)

In fiscal year 2008, VRE entered into an agreement with the Federal Railroad Administration for a loan of up to \$72.5 million to purchase 50 Gallery railcars; in fiscal year 2009 the terms were amended to include ten additional Gallery railcars. A series of sixteen promissory notes were originally authorized and during fiscal year 2012 the balances on the individual notes were combined into a consolidated note. The note is secured by the revenues of VRE and the railcars. The carrying value of the railcars was \$79,279,560 at June 30, 2016.

\$63,844,842 Promissory Note; due in quarterly maturities of \$533,073 to \$1,195,258 through March 2033, plus quarterly interest at 4.74%. \$ 55,628,942

Mandatory debt service requirements are as follows:

Year(s) Ending June 30,	Principal	Interest	Total Required
2017	\$ 2,188,783	\$ 2,594,730	\$ 4,783,513
2018	2,290,688	2,492,825	4,783,513
2019	2,401,211	2,382,302	4,783,513
2020	2,513,907	2,269,606	4,783,513
2021	2,641,432	2,142,081	4,783,513
2022-2026	15,229,226	8,688,337	23,917,563
2027-2031	19,275,259	4,642,304	23,917,563
2032-2033	9,088,436	478,588	9,567,024
	<u>\$ 55,628,942</u>	<u>\$ 25,690,773</u>	<u>\$ 81,319,715</u>

Note 5. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

All full-time, salaried permanent employees of VRE 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. 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:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none">• Political subdivision employees.*
<p>Hybrid Opt-In Election Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<ul style="list-style-type: none">• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
<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><u>*Non-Eligible Members</u> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none">• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees
<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>	
<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>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component</u> 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><u>Defined Contribution Component</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component</u> 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><u>Defined Contribution Component</u> 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> <ul style="list-style-type: none">• After two years, a member is 50% vested and may withdraw 50% of employer contributions.• After three years, a member is 75% vested and may withdraw 75% of employer contributions.• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component</u> See definition under Plan 1</p> <p><u>Defined Contribution Component</u> 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>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component</u> The retirement multiplier for the defined benefit component is 1.0%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age <u>Defined Benefit Component</u> Same as Plan 2.</p> <p><u>Defined Contribution Component</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p>Earliest Retirement Eligibility Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><u>Defined Contribution Component</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The 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><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from 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>Cost-of-Living Adjustment (COLA) in Retirement The COLA matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component</u> Same as Plan 2.</p> <p><u>Defined Contribution Component</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p> <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p> <p>Disability Coverage Eligible political subdivision members (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>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the highest of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component
Not applicable.

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive Members or Their Beneficiaries Currently Receiving Benefits	<u>17</u>
Inactive Members:	
Vested	18
Non-vested	26
Active elsewhere in VRS	<u>7</u>
Total inactive members	<u>51</u>
Active Members	<u>86</u>
Total covered employees	<u><u>154</u></u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

Contributions

The contribution requirement for active employees is governed by Section 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. VRE elected to not phase in the increase, but rather provided a 5.00% salary increase to all employees on July 1, 2012.

VRE's contractually required contribution rate for the year ended June 30, 2016 was 6.55% for Plan 1 and Plan 2 and 5.55% for the Hybrid Plan of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from VRE were \$319,010 and \$244,793 for the years ended June 30, 2016 and 2015, respectively.

B. Net Pension Asset

VRE's net pension asset was measured as of June 30, 2015. The total pension liability 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.

Actuarial Assumptions

The total pension liability for VRE's retirement plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal Actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the following:

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

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using 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 estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Long-Term Expected Rate of Return (Continued)

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%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic nominal return	8.33%

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for VRE's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

C. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balance at June 30, 2014	\$ 12,284,629	\$ 12,789,238	\$ (504,609)
Changes for the year:			
Service cost	743,258	-	743,258
Interest	850,266	-	850,266
Difference between expected and expected and actual experience	92,275	-	92,275
Contributions – employer	-	460,763	(460,763)
Contributions – employee	-	494,240	(494,240)
Net investment income	-	603,590	(603,590)
Benefit payments, including refunds of employee contributions	(275,932)	(275,932)	-
Administrative expense	-	(7,442)	7,442
Other changes	-	(131)	131
Net changes	1,409,867	1,275,088	134,779
Balance at June 30, 2015	\$ 13,694,496	\$ 14,064,326	\$ (369,830)

Note: The information above is derived from the actuarial valuation report for the Potomac and Rappahannock Transportation Commission, which consolidates information for both PRTC and VRE employees. No separate data on funding progress is available solely for VRE. VRE has recorded a net pension asset of \$213,799 on its Statements of Net Position based on a percentage of contributions to the plan for fiscal year 2016. VRE's percentage of total contributions to the plan was 57.81%. This percentage was used to allocate a portion of the net pension asset to VRE.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. 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 VRE, using the discount rate of 7.00%, as well as what VRE's net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension (asset) liability	\$ 1,647,795	\$ (369,830)	\$ (2,026,222)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued VRS financial report. Additional financial information supporting the preparation of the VRS Political Subdivision Plan Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is presented in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR is publicly available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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

For the year ended June 30, 2016, VRE recognized pension expense of \$239,495. VRE also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,413	\$ -
Net difference between projected and actual earnings on pension plan investments	-	182,256
Employer contributions subsequent to the measurement date	276,597	-
Total	\$ 319,010	\$ 182,256

The \$276,597 reported as deferred outflows of resources related to pensions resulting from VRE's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2017.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

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

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (61,967)
2018	(61,967)
2019	(61,967)
2020	46,058
	<u>\$ (139,843)</u>

Note 6. Operating Leases and Agreements

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the years ended June 30, 2016 and 2015, annual track usage fees totaled approximately \$9,224,100 and \$8,550,200, respectively, and facility and other identified costs totaled approximately \$521,000 and \$520,600, respectively. The increase in track usage fees reflects both an annual increase to the base fee and the addition of a new train during fiscal year 2016.

The agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on July 1, 2015. For the years ended June 30, 2016 and 2015, costs for track access and equipment storage totaled approximately \$5,831,000 and \$5,592,000, respectively, and mid-day maintenance, utility and other services totaled approximately \$4,332,000 and \$4,248,000, respectively. Cost adjustments will be made in fiscal year 2017 to reflect changes to various published cost indices and the number of trains that have access to and are stored and serviced at the terminal. After October 1, 2015, charges for terminal access are determined in accordance with the cost-sharing arrangement for the Northeast Corridor passenger rail infrastructure mandated by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA).

The Commissions signed a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning July 1, 2015. The cost of train operations and maintenance for the years ended June 30, 2016 and 2015 totaled approximately \$19,828,000 and \$18,609,000, respectively. Costs are based on an annual budget prepared in advance. Costs in fiscal year 2016 reflect contractual increases and the addition of a new train during the fiscal year. Costs for fiscal year 2017 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index. A separate contract for maintenance of equipment and facilities will be in effect for the period beginning July 1, 2016.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 7. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2016 and 2015, these payments included \$6,432,095 and \$5,377,262 of salary-related costs and \$19,961 and \$122,105 of administrative costs, respectively, which are functionally classified with similar payments made directly to vendors and contractors. In addition, VRE pays the Commissions for direct labor and associated indirect costs incurred for services rendered under budgeted activities for VRE. These staff support payments totaled \$80,000 to NVTC for both periods, and \$85,788 and \$83,153 to PRTC during 2016 and 2015, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to approximately \$1,079 and \$1,649 in 2016 and 2015, respectively. Amounts payable to NVTC and PRTC were \$28,919 and \$1,863,540, respectively, at June 30, 2016 and \$45,327 and \$1,557,304, respectively, at June 30, 2015.

Note 8. Liability Insurance Plan

VRE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and VRE's own need for liability and property coverage. The Commissions indemnify each of the railroads in an amount up to the passenger rail liability cap (currently at \$295,000,000) for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately \$163,000 at June 30, 2016 and \$184,000 at June 30, 2015.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2006, all plan assets have been invested in the Department of Treasury common pool. Activity in the Insurance Trust Fund for the years ended June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance, July 1	\$ 10,434,495	\$ 10,401,194
Contribution to reserves	3,950,000	4,000,000
Insurance premiums paid	(3,966,626)	(3,883,676)
Claims mitigation costs and losses incurred	-	(16,551)
Investment income	69,444	-
Actuarial and administrative charges	(81,707)	(66,472)
Transfer to VRE for small liability claims	(18,849)	-
	<hr/>	<hr/>
Ending balance, June 30	\$ 10,386,757	\$ 10,434,495

An actuarial study is performed annually to determine the adequacy of the Insurance Trust Fund for the risk retained and to determine the required contribution to reserves.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 9. Contingencies and Contractual Commitments

At June 30, 2016, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal (with VRE as grantee) and Commonwealth of Virginia grants and local funds will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenses incurred as of June 30, 2016:

Stations and parking lots	\$ 2,243,252
Rolling Stock	31,412,358
Maintenance and layover yards	1,125,176
Other administrative	<u>1,983,352</u>
Total	<u>\$ 36,764,138</u>

The Commissions have received proceeds from several federal (with VRE as grantee) and state grant programs. In the event of an audit of these grants, certain costs may be questioned as not being appropriate expenses under the grant agreements. Such findings may result in the refund of grant monies to the grantor agencies. Based on VRE's policies and past experience, management believes that no refunds would be due in the case of an audit and, accordingly, no provision has been made in the accompanying financial statements for the refund of grant monies.

The federal grant agreements control the use and disposal of property acquired with federal grant funds. If property is removed from service prior to the end of its useful life, the grant recipient may be required to return to the grantor agency the federal assistance expended on that property. In addition, permission of the grantor agency is required if property is disposed of prior to the end of its useful life or at any time for an amount in excess of \$5,000.

The Master Agreement for the use of Commonwealth of Virginia Transportation Funds control the use and disposal of property acquired with state grant funds. If any project equipment are not used for the purpose for which they were purchased for the duration of their useful lives, the Commonwealth has the option of requiring the grantee to relinquish title to the project equipment or remit an amount equal to the proportional share of the fair market value based upon the ratio of participation by the state. For facilities, the Commonwealth requires an amount equal to the proportional share of fair market value based upon the ratio of participation by the state to be remitted.

Note 10. Pending GASB Statements

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 10. Pending GASB Statements (Continued)

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

VRE has not yet determined the effect of these statements on its financial statements.

Note 11. Subsequent Events

VRE entered into contracts at various times from August 2016 through October 2016 to purchase fuel at set prices for delivery in September 2016 through March 2017. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 420,000 gallons of fuel at a cost of approximately \$660,000.

The first year of the Commissions' contract with Keolis Rail Services, Virginia LLC for maintenance of equipment and facilities went into effect on July 1, 2016 for a five-year base term. The contract also provides for two subsequent five-year option periods. The existing agreement with Keolis Rail Services, Virginia LLC for operations and maintenance was amended to remove the maintenance functions, effective July 1, 2016.

Required Supplementary Information

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,	
	2014	2015
Contractually required contribution (CRC)	\$ 528,296	\$ 460,763
Contributions in relation to the CRC	528,296	460,763
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 6,856,560	\$ 7,617,414
Contributions as a percentage of covered-employee payroll	7.70%	6.72%

Notes to Schedule:

- (1) Valuation date: June 30, 2014
- (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 Commission will present information for those years for which information is available.
- (5) The information on this schedule is derived from the actuarial valuation report for the Potomac & Rappahannock Transportation Commission, which consolidates information for both PRTC and VRE employees. No separate data on funding progress is available solely for VRE.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGES IN NET PENSION ASSET - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,	
	2014	2015
Total Pension Liability		
Service cost	\$ 722,134	\$ 743,258
Interest	763,704	850,266
Differences between expected and actual experience	-	92,275
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)
Net change in total pension liability	1,263,313	1,409,867
Total pension liability - beginning	11,021,316	12,284,629
Total pension liability - ending (a)	<u>\$ 12,284,629</u>	<u>\$ 13,694,496</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 528,296	\$ 460,763
Contributions - employee	414,844	494,240
Net investment income	1,697,173	603,590
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)
Administrative expense	(8,482)	(7,442)
Other	89	(131)
Net change in plan fiduciary net position	2,409,395	1,275,088
Plan fiduciary net position - beginning	10,379,843	12,789,238
Plan fiduciary net position - ending (b)	<u>\$ 12,789,238</u>	<u>\$ 14,064,326</u>
PRTC's net pension asset - ending (a) - (b)	<u>\$ (504,609)</u>	<u>\$ (369,830)</u>
Plan fiduciary net position as a percentage of the total pension liability	104.11%	102.70%
Covered-employee payroll	\$ 6,856,560	\$ 7,617,414
PRTC's net pension asset as a percentage of covered - employee payroll	7.36%	4.86%

Notes to Schedule:

- (1) **Changes of benefit terms:** There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.
- (2) **Changes of assumptions:** The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:
 - a. Update mortality table
 - b. Adjustments to rates of service retirement for females
 - c. Decrease in rate of withdrawals for 3 through 9 years of service
 - d. Decrease in rates of disability
 - e. Reduce rates of salary increase 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, PRTC will present information for those years for which information is available.
- (4) The information on this schedule is derived from the actuarial valuation report for the Potomac & Rappahannock Transportation Commission, which consolidates information for both PRTC and VRE employees. No separate data on funding progress is available solely for VRE.

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Statistical Section



STATISTICAL SECTION

This portion of Virginia Railway Express' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about VRE's overall financial health. Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

Contents	Page
Financial Trends	
These schedules contain trend information to help the reader understand how VRE's financial performance has changed over time.	52 – 55
Other Statistical Information	
These schedules and service area map provide other information useful to certain readers of VRE's financial statements.	56 – 57
Demographic and Economic Information	
These schedules offer demographic and economic indicators to assist the reader understand the environment within which VRE's financial activities take place.	58 – 60

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGE IN NET POSITION

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Revenues:										
Passenger revenue	\$ 37,696,913	\$ 36,700,191	\$ 37,093,476	\$ 34,733,106	\$ 34,721,591	\$ 32,368,123	\$ 30,019,730	\$ 25,909,794	\$ 21,688,092	\$ 19,685,561
Equipment rentals and other	240,052	418,569	197,915	239,381	304,184	200,069	247,375	124,926	133,242	206,558
Total operating revenues	37,936,965	37,118,760	37,291,391	34,972,487	35,025,775	32,568,192	30,267,105	26,034,720	21,821,334	19,892,119
Nonoperating Revenues:										
Subsidies:										
Commonwealth of Virginia grants	16,572,077	14,401,957	19,330,105	14,967,197	12,711,602	12,806,509	13,153,781	13,482,816	10,795,443	12,269,884
Federal grants - with PRTC as grantee	13,917,534	13,688,723	15,931,876	18,559,490	17,181,121	16,157,284	14,525,795	12,784,123	12,522,868	12,741,069
Jurisdictional contributions	16,428,800	16,456,986	16,428,800	16,428,800	15,943,917	16,070,307	16,376,968	17,275,500	13,379,155	8,802,762
Regional transportation funding (NVTA)	542,671	-	-	-	-	-	-	-	-	-
Capital grants and assistance:										
Commonwealth of Virginia grants	9,826,429	14,694,277	-	-	-	-	-	-	-	-
Federal grants - with PRTC as grantee	22,125,460	17,764,759	5,420,552	1,269,732	9,997,070	40,136,130	15,437,312	14,648,460	18,259,459	399,283
Federal grants - NVTC and other	-	-	-	-	-	3,308,513	402,355	53,738	939,088	10,363,653
Pass-through to Fairfax County	-	-	-	-	-	-	-	(4,456,818)	-	-
In-kind and other local contributions	851,659	1,079,885	2,637,809	328,031	46,924	406,331	680,631	1,903,284	925,338	-
Interest income:										
Operating funds	93,677	34,337	27,860	18,573	16,813	14,675	23,893	129,620	399,553	850,490
Insurance trust	69,444	-	-	-	-	-	65,164	241,003	400,204	329,252
Other restricted funds	197	59	196	772	1,161	384	586	36,232	535,093	41,038
Insurance proceeds	-	-	-	-	-	-	-	-	262,676	-
Gain (loss) on sale of assets	-	(60,293)	1,500	(769,042)	(358,382)	(271,606)	(393,419)	-	-	-
Total nonoperating revenues	80,427,948	78,060,690	59,778,698	50,803,553	55,540,226	88,628,527	60,273,066	56,097,958	58,418,877	45,797,431
Total revenues	118,364,913	115,179,450	97,070,089	85,776,040	90,566,001	121,196,719	90,540,171	82,132,678	80,240,211	65,689,550
Operating Expenses:										
Contract operations and maintenance	24,082,615	22,782,752	23,151,332	21,751,488	21,093,606	21,405,930	20,291,361	18,694,757	17,433,267	16,982,189
Other operations and maintenance	13,662,606	14,334,954	14,891,502	12,785,223	14,594,826	12,949,155	12,055,009	12,575,004	11,562,892	10,130,233
Property leases and access fees	15,175,732	14,318,788	13,924,017	13,504,023	13,123,367	11,756,531	9,482,367	8,686,385	8,279,505	8,636,947
Insurance	4,046,198	3,964,673	3,991,969	4,022,072	3,491,620	4,049,906	3,864,366	3,866,438	4,099,475	5,169,441
Marketing and sales	2,393,332	2,267,729	2,012,321	1,872,343	2,211,354	1,502,434	1,259,048	1,477,554	1,537,243	1,161,206
General and administrative	10,514,343	7,968,298	7,793,040	6,784,379	7,111,871	5,964,956	5,642,360	5,492,566	5,151,117	5,164,332
Depreciation and amortization	16,953,565	15,391,195	14,706,458	14,465,445	13,373,129	12,218,203	11,337,406	10,445,041	10,640,098	9,875,593
Total operating expenses	86,828,391	81,028,389	80,470,639	75,184,973	74,999,773	69,847,115	63,931,917	61,237,745	58,703,597	57,119,941
Nonoperating (Revenues) Expenses:										
Interest and amortization	3,384,762	3,534,644	4,026,724	4,683,094	6,524,348	5,566,829	5,682,935	6,014,243	4,525,279	2,748,084
(Gain) loss on sale of assets	-	-	-	-	-	-	-	(4,218,641)	3,176,932	291,306
Total nonoperating expenses, net	3,384,762	3,534,644	4,026,724	4,683,094	6,524,348	5,566,829	5,682,935	1,795,602	7,702,211	3,039,390
Extraordinary Item										
	1,882,945	-	3,660,786	-	-	-	-	-	-	-
Total expenses	92,096,098	84,563,033	88,158,149	79,868,067	81,524,121	75,413,944	69,614,852	63,033,347	66,405,808	60,159,331
Change in net assets				\$ 5,907,973	\$ 9,041,880	\$ 45,782,775	\$ 20,925,319	\$ 19,099,331	\$ 13,834,403	\$ 5,530,219
Change in net position	\$ 26,268,815	\$ 30,616,417	\$ 8,911,940							

Note: Years after fiscal year 2010 reflect change in classification of *Gain (loss) on sale of assets*.

Interest costs in fiscal year 2012 restated to comply with GASB 65.

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF COMPONENTS OF NET POSITION

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net investment in capital assets	\$ 274,136,653	\$ 254,085,092	\$ 220,069,396	\$ 220,007,440	\$ 220,396,390	\$ 213,710,235	\$ 165,407,433	\$ 144,566,529	\$ 114,677,949	\$ 87,827,971
Restricted for liability insurance plan	10,439,990	10,487,532	10,454,171	10,294,874	10,156,492	10,052,968	9,511,797	8,229,082	7,470,123	6,524,971
Restricted for debt service and capital lease	-	-	6,731,166	6,563,328	6,408,466	6,259,239	5,980,313	5,850,112	7,287,789	7,213,804
Restricted grants or contributions	779,223	-	-	140,270	951,342	600,250	34,619	194,193	1,269,313	785,173
Unrestricted assets	<u>55,697,393</u>	<u>50,211,820</u>	<u>46,973,386</u>	<u>35,845,639</u>	<u>28,056,773</u>	<u>24,277,019</u>	<u>20,676,168</u>	<u>10,905,605</u>	<u>7,712,570</u>	<u>7,251,572</u>
Total net assets				<u>\$ 272,851,551</u>	<u>\$ 265,969,463</u>	<u>\$ 254,899,711</u>	<u>\$ 201,610,330</u>	<u>\$ 169,745,521</u>	<u>\$ 138,417,744</u>	<u>\$ 109,603,491</u>
Total net position	<u>\$ 341,053,259</u>	<u>\$ 314,784,444</u>	<u>\$ 284,228,119</u>							

Note: Method of reporting was revised for fiscal year 2011.

Fiscal year 2012 balance restated to comply with GASB 65.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue Bonds:										
\$37,625,000 Commuter Rail Revenue Bond, Series 1993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,065,000	\$ 9,875,000	\$ 14,450,000	\$ 18,800,000
\$23,000,000 Commuter Rail Revenue Bond, Series 1997	-	-	-	-	-	-	-	-	14,635,000	15,690,000
\$31,700,000 Commuter Rail Revenue Bond, Series 1998	-	-	6,555,000	12,775,000	18,685,000	24,295,000	24,425,000	24,550,000	24,670,000	24,785,000
Capital Leases:										
\$271,804 Capitalized Lease Obligation	-	-	-	-	-	-	-	-	-	164,600
\$2,717,409 Capitalized Lease Obligation	-	-	-	-	-	-	-	-	420,665	855,119
\$25,100,000 Capitalized Lease Obligation	14,108,906	15,349,786	16,535,611	17,668,825	18,751,762	19,786,652	20,775,627	21,720,726	22,623,892	23,486,988
\$74,425 Capitalized Lease Obligation	50,048	64,331	-	-	-	-	-	-	-	-
Notes Payable:										
\$900,000 SunTrust Bank	-	-	-	-	320,000	380,000	440,000	500,000	560,000	605,000
\$63,844,842 FRA Notes	55,628,942	57,709,856	59,698,580	61,595,765	63,409,659	63,305,611	63,749,851	56,122,937	26,970,555	-
Outstanding as of June 30	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191	\$ 92,039,590	\$ 101,166,421	\$ 107,767,263	\$ 114,455,478	\$ 112,768,663	\$ 104,330,112	\$ 84,386,707
Debt per Capita:										
Outstanding as of June 30	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191	\$ 92,039,590	\$ 101,166,421	\$ 107,767,263	\$ 114,455,478	\$ 112,768,663	\$ 104,330,112	\$ 84,386,707
Total Participating Jurisdictional Population	N/A	N/A	2,291,535	2,272,215	2,238,627	2,189,988	2,159,228	2,116,826	2,079,204	2,045,670
Debt per Capita	N/A	N/A	\$ 36.13	\$ 40.51	\$ 45.19	\$ 49.21	\$ 53.01	\$ 53.27	\$ 50.18	\$ 41.25
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191	\$ 92,039,590	\$ 101,166,421	\$ 107,767,263	\$ 114,455,478	\$ 112,768,663	\$ 104,330,112	\$ 84,386,707
Total Personal Income	N/A	N/A	144,195,320,000	142,972,030,000	135,296,802,000	126,548,575,000	125,509,757,000	125,018,523,000	124,410,734,000	117,524,050,000
Total Outstanding Debt as a Percentage of Personal Income	N/A	N/A	0.06%	0.06%	0.07%	0.09%	0.09%	0.09%	0.08%	0.07%

The population data for each participating jurisdiction can be found in the following reports.

- (1) Fairfax County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 267
- (2) Prince William County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 209
- (3) City of Manassas fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 140
- (4) City of Manassas Park fiscal year 2014 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 124
- (5) Stafford County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 140
- (6) City of Fredericksburg fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 166
- (7) Spotsylvania County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 141
- (8) City of Alexandria fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 178, Table XI, page 176
- (9) Arlington County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table K, page 199

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Fairfax County	\$ 4,847,284	\$ 4,852,953	\$ 4,747,684	\$ 4,511,265	\$ 4,876,961	\$ 4,906,693	\$ 4,995,535	\$ 5,507,805	\$ 4,700,508	\$ 3,935,736
City of Fredericksburg	439,366	581,244	427,728	339,064	420,566	405,980	508,503	482,764	330,713	111,115
City of Manassas	766,491	686,944	757,804	642,662	817,993	871,611	883,443	938,897	655,077	428,436
City of Manassas Park	576,699	401,762	574,709	441,702	566,504	544,763	537,496	567,082	359,574	183,686
Prince William County	5,309,674	5,485,333	5,748,203	4,761,324	5,859,007	6,384,660	6,173,028	6,511,839	4,624,876	2,961,241
Stafford County	2,855,607	1,401,382	2,529,281	1,892,640	2,505,805	2,634,002	2,971,727	2,974,507	2,429,735	917,147
Spotsylvania County	1,303,888	2,689,391	1,313,600	3,510,352	577,020	-	-	-	-	-
City of Alexandria	133,894	133,894	133,894	133,894	129,944	130,974	124,737	118,797	113,140	107,752
Arlington County	195,897	195,897	195,897	195,897	190,117	191,624	182,499	173,809	165,532	157,649
Total contributions	\$ 16,428,800	\$ 16,428,800	\$ 16,428,800	\$ 16,428,800	\$ 15,943,917	\$ 16,070,307	\$ 16,376,968	\$ 17,275,500	\$ 13,379,155	\$ 8,802,762

VIRGINIA RAILWAY EXPRESS

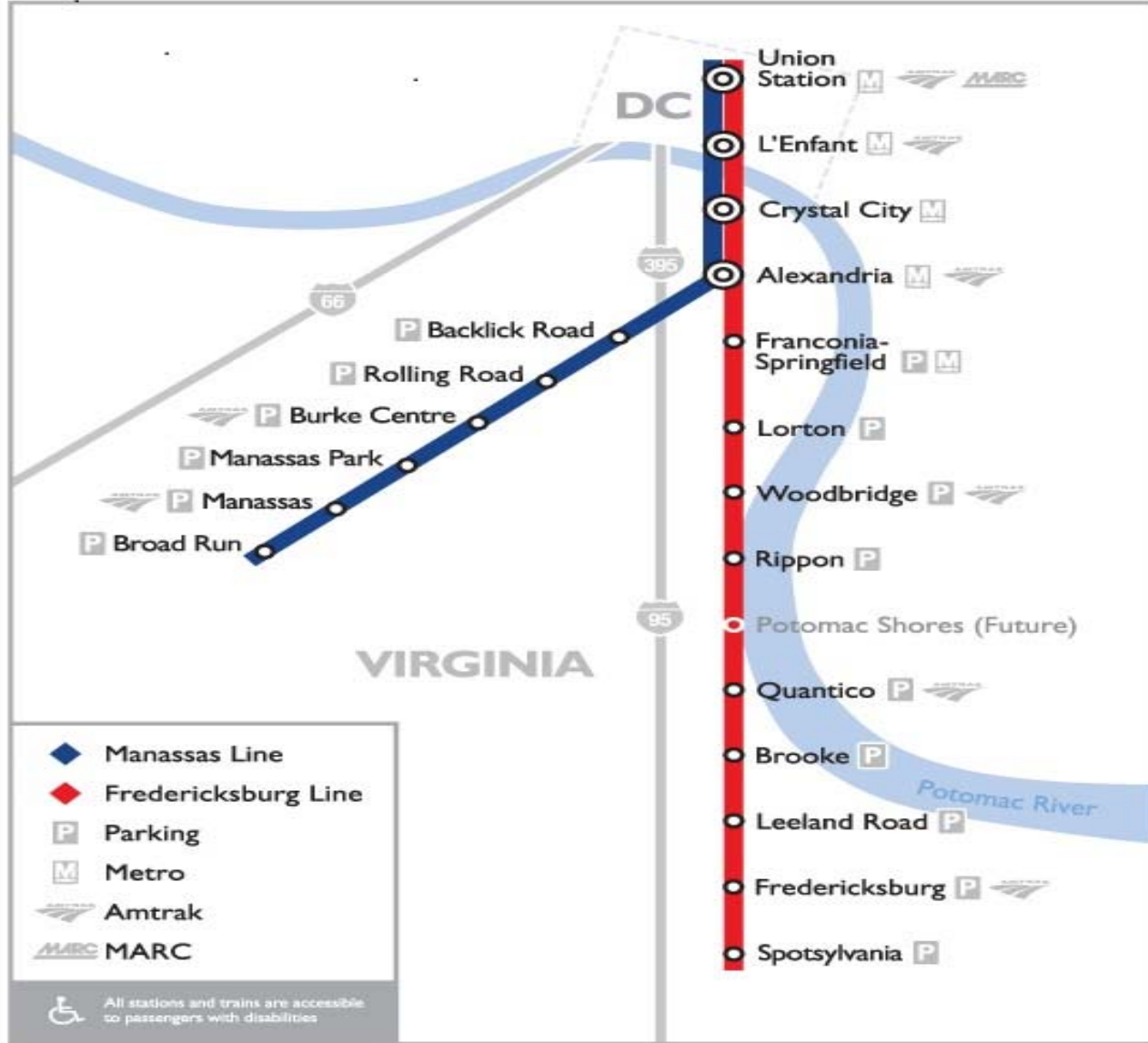
SCHEDULE OF MISCELLANEOUS STATISTICS

Last Ten Fiscal Years (Unaudited)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Rolling Stock (Owned or Leased)										
Locomotives	20	20	20	20	22	25	20	21	18	19
Railcars	100	93	91	91	91	101	95	91	89	90
Total rolling stock	120	113	111	111	113	126	115	112	107	109
Stations	19	18	18	18	18	18	18	18	18	18
Parking Spaces	10,743	9,243	9,030	9,030	8,824	8,824	8,691	8,505	7,227	7,284
Employees	45	39	37	37	37	37	37	37	37	36
Ridership and Fare Revenue Data (1):										
Total ridership	4,441,858	4,618,169	4,547,911	4,643,898	4,771,987	4,517,366	4,033,230	3,857,646	3,628,563	3,453,561
Average daily ridership	17,767	18,547	18,119	18,878	19,088	18,377	16,673	15,754	14,662	13,982
Average fare per trip	\$ 8.49	\$ 7.95	\$ 8.16	\$ 7.48	\$ 7.28	\$ 7.17	\$ 7.44	\$ 6.66	\$ 5.98	\$ 5.70

(1) The methodology for calculating passenger trips was changed during fiscal year 2011 and fiscal year 2012 to more accurately reflect boardings and detrainings prior to the inner city stations. This increased total ridership and decreased average fare per trip. The methodology for calculating Average Daily Ridership (ADR) was changed in fiscal year 2012 to count days with limited train service ("S" schedule). This resulted in a lower ADR than would have been calculated under the prior method.

Source: VRE staff



VIRGINIA RAILWAY EXPRESS

PRINCIPAL EMPLOYERS OF PARTICIPATING JURISDICTIONS

Current Year and Nine Years Ago
(Unaudited)

Employers	2015			2006		
	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1) (2) (3) (4) (5)	1	72,334	N/A	1	65,669	N/A
Fairfax County Public Schools (1)	2	24,181	N/A	2	22,562	N/A
Fairfax County Government (1)	3	12,326	N/A	3	10,999	N/A
Inova Health System (1)	4	7,000-10,000	N/A	4	10,000-11,000	N/A
George Mason University (1)	5	5,000-10,000	-	-	-	-
Arlington County Government and Schools (2)	6	8,005	N/A	5	7,280	N/A
Deloitte (2)	7	7,100	N/A	-	-	-
Booz Allen Hamilton (1)	8	4,000-6,999	N/A	5	8,000-9,000	N/A
Science Applications International Corporation (1)	8	4,000-6,999	N/A	7	6,000-7,000	N/A
Federal Home Loan Mortgage (1)	8	4,000-6,999	N/A	10	4,000-5,000	N/A
General Dynamics (1)	8	4,000-6,999	N/A	-	-	-
Northrop Grumman (1)	9	1000-3999	N/A	6	6,000-7,000	N/A
Computer Science Corporation (1)	10	-	-	9	3,000-4,000	N/A

Sources:

(1) through (5) extracted and combined from the following sources:

- (1) County of Fairfax fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 268
- (2) County of Arlington fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table L, page 192
- (3) County of Prince William fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 210
- (4) County of Stafford fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table S-16, page 142
- (5) City of Alexandria fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 183

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS

Fiscal Years 2006 to 2015

(Unaudited)

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	Spotsylvania County (7)	City of Alexandria (8)	Arlington County (9)
2016 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2015									
Population	N/A	446,094	N/A	15,700	142,299	28,213	130,674	150,575	216,700
Personal Income (in thousands)	N/A	\$24,943,113	N/A	\$700,000	\$6,296,162	\$1,201,676	\$5,684,634	\$12,071,851	\$18,614,530
Per Capita Personal Income	N/A	\$47,965	N/A	\$44,586	\$44,246	\$42,593	\$43,502	N/A	\$85,900
Unemployment Rate	N/A	4.4%	N/A	4.4%	5.2%	6.2%	2.5%	3.5%	3.4%
2014									
Population	1,137,538	438,580	42,081	15,174	138,423	28,132	127,715	148,892	215,000
Personal Income (in thousands)	\$81,620,627	\$23,902,844	N/A	\$694,362	\$6,091,966	\$1,215,809	N/A	\$12,115,212	\$18,554,500
Per Capita Personal Income	\$71,752	\$46,954	N/A	\$45,760	\$44,010	\$43,218	N/A	N/A	\$86,300
Unemployment Rate	3.5%	4.7%	4.8%	4.5%	5.2%	5.9%	5.0%	4.6%	3.5%
2013									
Population	1,130,924	430,100	39,902	14,838	135,311	27,307	126,494	146,294	221,045
Personal Income (in thousands)	\$80,982,075	\$24,558,604	N/A	\$419,100	\$5,900,913	\$1,116,665	N/A	\$11,760,450	\$18,234,223
Per Capita Personal Income	\$71,607	\$48,617	N/A	\$28,245	\$43,610	\$40,893	N/A	N/A	\$82,491
Unemployment Rate	3.7%	4.7%	4.6%	5.0%	5.1%	8.2%	5.3%	4.7%	4.0%
2012									
Population	1,118,602	419,268	39,060	15,332	134,352	26,024	125,684	144,301	216,004
Personal Income (in thousands)	\$77,012,392	\$23,024,777	N/A	\$419,100	\$5,744,220	\$1,064,199	N/A	\$10,758,922	\$17,273,192
Per Capita Personal Income	\$68,847	\$47,309	N/A	\$27,335	\$42,755	\$40,893	\$43,218	\$83,242	\$79,967
Unemployment Rate	4.4%	4.9%	6.3%	4.7%	4.9%	8.8%	5.0%	4.6%	3.5%
2011									
Population	1,100,692	406,392	37,821	14,387	128,961	25,691	124,477	141,287	210,280
Personal Income (in thousands)	\$71,145,429	\$22,156,021	N/A	\$455,635	\$5,405,658	\$1,050,582	N/A	\$10,627,334	\$15,707,916
Per Capita Personal Income	\$64,637	\$46,719	N/A	\$31,670	\$41,917	\$40,893	\$40,893	\$82,491	\$74,700
Unemployment Rate	4.7%	5.3%	6.7%	5.2%	5.2%	10.3%	5.6%	4.8%	3.9%
2010									
Population	1,081,726	402,002	35,648	12,042	128,961	24,286	122,397	139,966	212,200
Personal Income (in thousands)	\$72,577,324	\$20,662,164	N/A	\$391,776	\$5,265,160	\$954,391	N/A	\$10,441,443	\$15,217,499
Per Capita Personal Income	\$67,094	\$44,995	N/A	\$32,534	\$40,828	\$39,298	\$39,298	\$76,362	\$71,713
Unemployment Rate	5.1%	5.7%	7.7%	5.8%	5.7%	9.6%	6.0%	4.8%	4.3%
2009									
Population	1,074,227	374,776	35,883	11,410	122,800	23,353	120,977	144,100	209,300
Personal Income (in thousands)	\$74,380,758	\$19,428,508	N/A	\$382,695	\$4,915,316	\$892,131	N/A	\$10,178,071	\$14,841,044
Per Capita Personal Income	\$69,241	\$44,227	N/A	\$33,540	\$40,027	\$38,202	\$38,202	\$70,846	\$70,908
Unemployment Rate	4.9%	5.9%	7.4%	6.5%	5.4%	9.2%	5.7%	2.8%	4.7%
2008									
Population	1,050,315	368,016	36,666	11,533	121,736	22,899	120,015	140,024	208,000
Personal Income (in thousands)	\$74,385,409	\$18,681,748	\$918,630	\$394,715	\$4,897,196	\$889,030	N/A	\$10,204,006	\$14,040,000
Per Capita Personal Income	\$70,822	\$44,230	\$25,054	\$34,225	\$40,228	\$38,824	\$38,824	\$72,220	\$67,500
Unemployment Rate	2.8%	3.4%	4.2%	3.2%	3.4%	5.7%	3.4%	2.9%	2.6%

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS (Continued)

Fiscal Years 2006 to 2015

(Unaudited)

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	Spotsylvania County (7)	City of Alexandria (7)	Arlington County (8)
2007									
Population	1,041,507	359,174	38,066	11,527	120,723	22,651	118,939	128,283	204,800
Personal Income (in thousands)	\$70,500,650	\$17,853,709	\$904,067	\$390,604	\$4,497,535	\$865,154	N/A	\$9,507,531	\$13,004,800
Per Capita Personal Income	\$67,691	\$42,952	\$23,750	\$33,886	\$37,255	\$38,195	\$38,195	\$70,632	\$63,500
Unemployment Rate	2.2%	2.6%	2.9%	2.4%	2.6%	4.1%	2.5%	2.2%	2.3%
2006									
Population	1,037,311	350,612	38,066	11,652	120,170	22,044	117,718	128,283	200,226
Personal Income (in thousands)	\$67,111,947	\$16,785,861	\$922,642	\$380,385	\$4,291,511	\$799,337	N/A	\$8,835,057	\$12,132,694
Per Capita Personal Income	\$64,698	\$41,213	\$24,238	\$32,645	\$35,712	\$36,261	\$36,261	\$65,141	\$60,595
Unemployment Rate	2.2%	2.6%	2.6%	2.3%	2.4%	4.0%	2.4%	2.6%	2.3%

Sources:

- (1) Fairfax County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 267
- (2) Prince William County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 209
- (3) City of Manassas fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 140
- (4) City of Manassas Park fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 131
- (5) Stafford County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 140
- (6) City of Fredericksburg fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 166
- (7) Spotsylvania County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 141
- (8) City of Alexandria fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 178, Table XI, Page 176
- (9) Arlington County fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table K, page 199

N/A = Not Available

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 Operations Board Members and Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We have audited, in accordance with the 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 Virginia Railway Express (VRE), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements, and have issued our report thereon dated November 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered VRE'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VRE's internal control. Accordingly, we do not express an opinion on the effectiveness of VRE's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of VRE'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 that 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 VRE'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 VRE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VRE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
November 8, 2016

