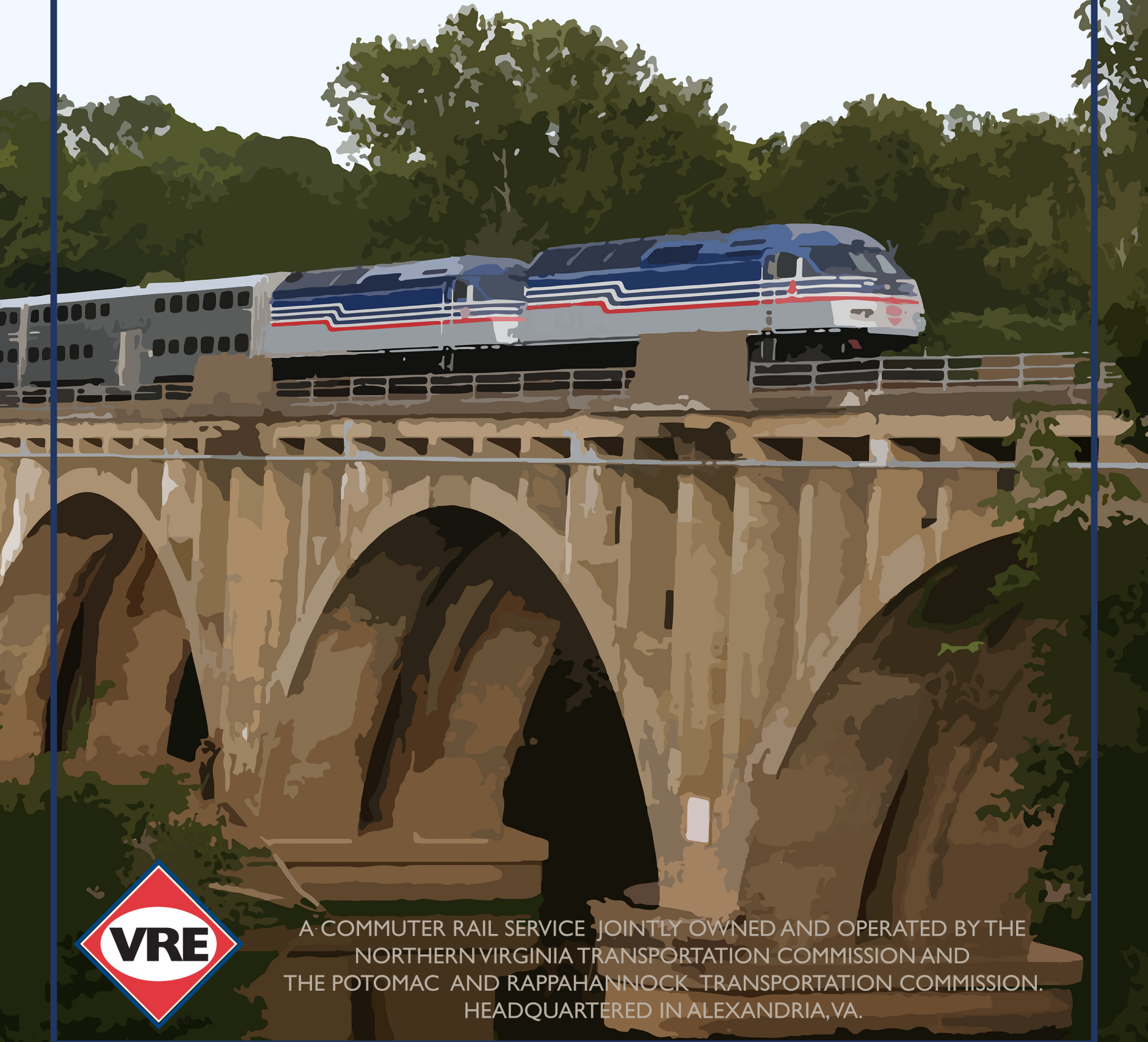


VIRGINIA RAILWAY EXPRESS

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017



A COMMUTER RAIL SERVICE JOINTLY OWNED AND OPERATED BY THE  
NORTHERN VIRGINIA TRANSPORTATION COMMISSION AND  
THE POTOMAC AND RAPPAHANNOCK TRANSPORTATION COMMISSION.  
HEADQUARTERED IN ALEXANDRIA, VA.



Government Finance Officers Association

**Certificate of  
Achievement  
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Presented to

**Virginia Railway Express**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

# **VIRGINIA RAILWAY EXPRESS**

**Comprehensive Annual Financial Report**

**YEARS ENDED JUNE 30, 2018 AND 2017**



Prepared by:

Department of Finance

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## **Introductory Section**



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VIRGINIA RAILWAY EXPRESS

October 30, 2018

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, 2018, 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. 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) can be 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 in Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2018, VRE operated 32 trains in revenue service and carried an average daily ridership of 18,974, based on 248 service days.

VRE is owned by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists 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. 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 commuter rail service and NVTC is the recipient of state grants for the commuter 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 2018, VRE focused on improving its rolling stock, facilities, and systems in order to ensure the financial health and operational safety of the current rail service and to allow for future system expansion.

- **Rolling Stock:** Nine new Gallery railcars were delivered and placed into service in fiscal year 2018. These cars are the second part of a larger set of expansion railcars intended to grow the VRE fleet and provide additional capacity for carrying passengers. VRE placed an initial order for the construction of five Gallery railcars in fiscal year 2015 and ordered an additional nine railcars in fiscal year 2016. Together, these fourteen rail cars will allow expansion of the VRE service, primarily through the lengthening of existing trains.
- **Facilities:** Construction of the Lorton Station platform expansion was completed and entered service in fiscal year 2018. This is part of an ongoing plan to extend existing platforms and add new second platforms at stations on the Fredericksburg Line. Work continued in fiscal year 2018 on the L'Enfant Storage tracks (North and South) that will allow VRE to store some trains outside of Washington Union Terminal during the midday period. The North track went into service early in fiscal year 2019, and the South storage track is anticipated to enter service later in fiscal year 2019. Work continued on the Midday Storage Facility, a vital multi-year project to construct a replacement storage facility for VRE trains in Washington D.C.
- **Systems:** Substantial work continued in fiscal year 2018 on the installation of Positive Train Control (PTC) devices on VRE's locomotives and cab cars as VRE works towards full compliance with the mandates created by the Rail Safety Improvement Act of 2008. VRE launched its mobile ticketing system in fiscal year 2015, and by the end of fiscal year 2018, the mobile ticketing system now accounts for 27 percent of monthly revenue and 32 percent of monthly ticket sales. VRE also continues to move forward on implementation of automated systems to count both passengers on the trains and automobiles utilizing VRE parking facilities. These systems will provide real-time information to customers and staff and allow for more efficient utilization of VRE's capacity.

In July 2017, the Northern Virginia Transportation Authority recommended approval of \$118 million from the I-66 Outside the Beltway Concessionaire Payment for VRE's Manassas Line Capacity Expansion and Real-Time Traveler Information project, and the Commonwealth Transportation Board gave final approval to funding those projects in December 2017. These funds will support additional railcars, expansions of stations and parking facilities, storage and maintenance facility expansions, and real-time information along the I-66 corridor. Along with the Smart Scale funding for the Fredericksburg Line that was approved in late fiscal year 2017, these two awards have filled crucial near-term funding gaps for VRE and will allow these projects to move forward into construction. These projects are will increase capacity to carry additional riders while requiring only modest additional operating expense.

As part of the passage of HB1539 in March 2018, the Virginia legislature approved the creation of the new Commuter Rail Operating and Capital (C-ROC) Fund. C-ROC funding is dedicated to "retaining, maintaining, improving, and developing commuter rail-related infrastructure improvements and operations" that are "essential to the Commonwealth's continued economic growth, vitality, and competitiveness." VRE is the only commuter railroad currently operating in Virginia and the only eligible recipient of funding from the C-ROC Fund. C-ROC funding may be used to support the cost of commuter rail operations as well as to make necessary capital investments and improvements, either on a pay-as-you-go basis or through the issuance of debt. C-ROC funding may be used as matching funds for state and federal grants.

The legislature also authorized changes to the regional gasoline tax collected by the Commissions. These changes raised the gasoline price ‘floor’ used to determine the total tax collected. From the regional gasoline tax revenues that are generated, \$15 million annually is dedicated to the C-ROC Fund. This \$15 million of annual funding is then disbursed from the C-ROC Fund to VRE for its use on operating and capital projects. Funding of \$1.25 million per month began flowing into the C-ROC Fund on July 1, 2018.

### **Long-Term Financial Planning**

To help prioritize investment 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 that demand. The plan 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 1 includes near-term investments that will maximize the capacity of the existing VRE system (e.g., by lengthening existing trains and platforms), while Phases 2 and 3 are focused on investments to significantly expand system capacity to support long-term service and ridership growth. VRE is committed to major joint investments in the CSX corridor in Phases 2 and 3 that will relieve key capacity bottlenecks, including the Long Bridge crossing of the Potomac River. During fiscal year 2016, a companion Financial Plan was completed that identified the costs, revenues, and funding gaps associated with System Plan 2040 and several alternate service and capital investment profiles during the same timeframe. This Financial Plan was critical to making the case to the legislature for the creation of the C-ROC Fund during fiscal year 2018. VRE began work on a refresh of the Financial Plan in late fiscal year 2018 that will update the key assumptions in the modeling regarding ridership, costs, project schedules, and funding sources. The results of this refresh will be used to guide decision-making regarding the C-ROC funds in the fiscal year 2020 budget.

In December 2011, a Transit Development Plan (TDP) for VRE was prepared that complies with Virginia Department of Rail and Public Transportation (DRPT) requirements for recipients of state transit operating and capital assistance. The TDP assists the agency in preparing inputs to the state Six-Year Improvement Program (SYIP) for transportation. The TDP 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. VRE began work on a major update of the TDP in fiscal year 2018.

### **Financial Environment**

As the regional road network has become more crowded over the last 25 years – particularly in the critical Interstate 95/395 and Interstate 66 Corridors of Statewide Significance – the VRE commuter rail system has provided a competitive alternative for Virginia commuters. VRE ridership remains strong due to investments in new equipment, consistent on-time performance, and a focus on customer service, as well as growth in the overall economy of the Washington region.

Although subsidy funding from the local jurisdictions is constrained, VRE continues to work with regional, state, and federal partners to identify additional revenue sources. As a result, future VRE budgets will reflect a balance between meeting service needs, maintaining the system in a state of good repair, setting fares at a reasonable level, and incorporating new funding sources into the strategic direction set by the Operations Board and the Commissions. The new C-ROC dedicated funding offers VRE an opportunity to fund projects that may not be eligible for other sources of funding, as well as to provide a local match that can leverage state and federal funding for larger projects.

The focus of the VRE Operations Board and VRE management continues to be the provision of safe and reliable commuter rail service. Public transit plays a vital role in addressing the region’s 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. As noted by the Commonwealth Transportation Board (CTB) in its review of VRE’s Financial Plan, “VRE is an asset to the Commonwealth that by its own analysis is currently valued at over \$5.4 billion, and with additional investment could be worth up to \$14 billion.”

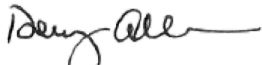
## Awards and Acknowledgement

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, 2017. 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



Mark Schofield  
Chief Financial Officer



Alexander E. Buchanan  
Comptroller

## DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

### Operations Board

#### Officers

Chairman	Hon. Marty Nohe, Prince William County
Vice-Chairman	Hon. Katie Cristol, Arlington County
Secretary	Hon. Maureen Caddigan, Prince William County
Treasurer	Hon. John Cook, Fairfax County

#### Members

Hon. Sharon Bulova, Fairfax County  
Hon. Mark Dudenhefer, Stafford County  
Hon. John Jenkins, Prince William County  
Hon. Matt Kelly, City of Fredericksburg  
Hon. Wendy Maurer, Stafford County  
Jennifer Mitchell, VDRPT  
Hon. Suhas Naddoni, City of Manassas Park  
Pamela Sebesky, City of Manassas  
Hon. Gary Skinner, Spotsylvania County  
Hon. Paul Smedberg, City of Alexandria

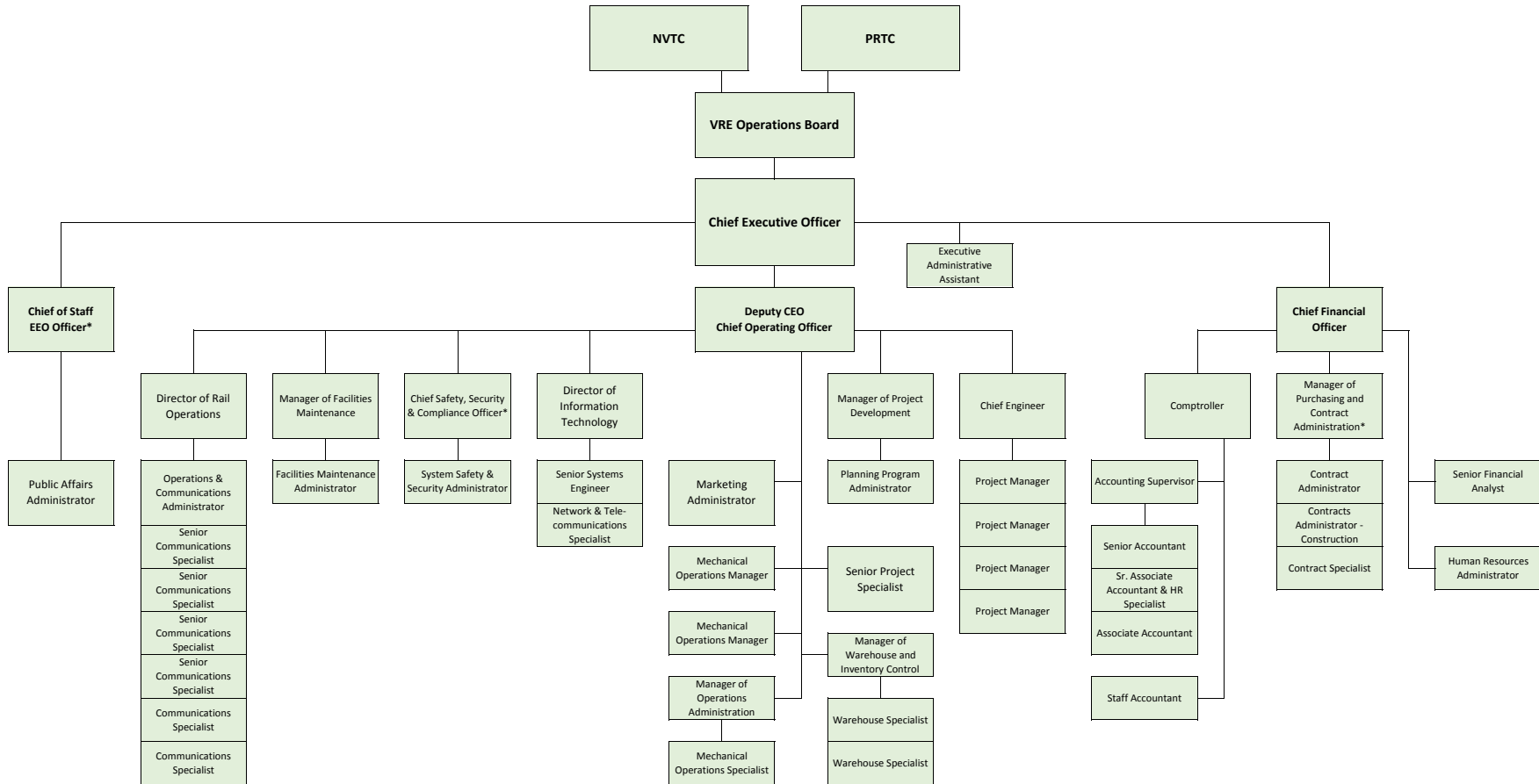
#### Alternates

Hon. Ruth Anderson, Prince William County  
Hon. Pete Candland, Prince William County  
Hon. Jack Cavalier, Stafford County  
Hon. Hector Cendejas, City of Manassas Park  
Hon. Libby Garvey, Arlington County  
Hon. Jason Graham, City of Fredericksburg  
Hon. Jeanine Lawson, Prince William County  
Hon. Tim Lovain, City of Alexandria  
Hon. Jeff Mcay, Fairfax County  
Mike McLaughlin, VDRPT  
Hon. Cindy Shelton, Stafford County  
Hon. Paul Trampe, Spotsylvania County  
Hon. Mark Wolfe, City of Manassas

### Management

Chief Executive Officer	Doug Allen
Deputy CEO & Chief Operating Officer	Richard Dalton
Chief of Staff	Joe Swartz
Chief Financial Officer	Mark Schofield
Comptroller	Alexander E. Buchanan
Director, Rail Operations	Chris Henry

**Virginia Railway Express  
Organizational Chart  
June 30, 2018**



\* Note: Chief Safety, Security and Compliance Officer reports to the CEO in matters related to safety and security  
 Manager of Purchasing and Contract Administration reports to the CEO in matters related to their duties as DBE liaison  
 Chief of Staff reports to the CEO in matters related to EEO

## **Financial Section**



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## 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, 2018 and 2017, 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 audits. We conducted our audits 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 audits 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, 2018 and 2017, 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.

## **Emphasis of Matter**

### *Change in Accounting Principles*

As discussed in Note 11 to the financial statements, VRE restated beginning net position in order to record the other postemployment benefits and related components in accordance with the implementation of GASB Statement No. 75.

## **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 9-18 and 58-63, 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 audits 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 audits were 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 audits 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 October 30, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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  
October 30, 2018



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides the reader with an overview of the activities and performance of the Virginia Railway Express (VRE) for the fiscal year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the letter of transmittal on pages 1-4 of this report and the financial statements, which begin on page 19.

### Financial Operations and Highlights

- Operating revenues decreased by 0.2 percent compared to the prior year, from \$42,582,290 to \$42,490,170. Ridership decreased 1.2 percent from 4,761,035 to 4,705,529, reflecting three fewer service days in fiscal year 2018, and a year of generally stable and consistent service levels, transit subsidies and local transportation conditions. Average daily ridership was 18,974 in fiscal year 2018 compared to 18,968 in fiscal year 2017, or essentially unchanged.
- Operating expenses increased by 6.9 percent from \$73,979,660 to \$79,049,691, as the result of regular contractual increases; rising diesel fuel costs; increases in rolling stock repair and maintenance costs and increases in grant funded expenses for asset management and capital project planning and studies.
- Non-operating revenue decreased by 3.0 percent from \$52,302,892 to \$50,722,503 primarily as the result of a decrease to the state operating assistance grant and a reduction of debt service expense reimbursements related to the refinancing of the Federal Railroad Administration (FRA) Bond.
- Capital grants and assistance increased by 21.8 percent from \$19,052,133 to \$23,197,414 as a result of the delivery of nine grant funded railcars, compared to five in the prior year, and the completion of the Lorton Station main platform expansion project. VRE continues to have many capital projects in early stages of development that have not yet initiated major construction.
- The operating loss before depreciation and amortization was \$36,559,521, an increase from the previous year of 16.4 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 \$16,012,161 from \$359,634,035 (as restated) to \$375,646,196, primarily as the result of grants and contributions for capital improvements. At the end of the fiscal year, unrestricted net position was \$72,747,104, an increase of \$3,861,326.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, increased by 1.9 percent, as the combined result of the delivery of nine new railcars, the completion of the Lorton Station main platform expansion and the recognition of annual depreciation and amortization.

### 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 19-22 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 23-57 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, 2018, 2017, and 2016 is shown below. VRE is not able to restate the Statement of Net Position at June 30, 2016 to reflect the adoption of GASB Statement No. 75 due to a lack of available information on other post-employment benefits (OPEB) provided by VRS.

#### Condensed Statements of Net Position

	2018	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>			
Current and other assets	\$ 95,835,889	\$ 91,338,135	\$ 81,123,071
Capital assets, net	352,798,880	346,205,344	343,924,549
Deferred outflows of resources	884,315	646,262	319,010
<b>Total assets and deferred outflows of resources</b>	<b>449,519,084</b>	<b>438,189,741</b>	<b>425,366,630</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:</b>			
Current portion of long-term debt	3,716,789	3,666,190	3,503,033
Other current liabilities	8,642,749	11,011,792	13,847,188
Noncurrent liabilities	61,216,736	63,455,771	66,780,894
Deferred inflows of resources	296,614	-	182,256
<b>Total liabilities and deferred inflows of resources</b>	<b>73,872,888</b>	<b>78,133,753</b>	<b>84,313,371</b>
<b>NET POSITION:</b>			
Net investment in capital assets	289,271,966	279,920,481	274,136,653
Restricted	13,627,126	11,249,729	11,219,213
Unrestricted	72,747,104	68,885,778	55,697,393
<b>Total net position, as restated</b>	<b>\$ 375,646,196</b>	<b>\$ 360,055,988</b>	<b>\$ 341,053,259</b>

## **Current Year**

Net position increased by approximately \$15.6 million, or 4.3 percent during the current fiscal year, due mainly to capital contributions used to fund system improvements.

The largest portion of VRE's net position, \$289.3 million or 77.0 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 \$2.4 million or 21.1 percent, primarily related to establishment of the Virginia Resources Authority (VRA) debt service reserve as part of the refinancing of the Federal Railroad Administration (FRA) Bond. The majority of VRE's restricted net position, \$10.5 million, represents resources that are restricted for the liability insurance plan.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$6.6 million or 1.9 percent as the result of the delivery of nine additional railcars, and the completion of the Lorton Station main platform expansion project.

Current liabilities decreased approximately \$2.3 million or 15.8 percent as the result of minor changes in various line items.

Noncurrent liabilities and deferred inflows of resources decreased approximately \$1.9 million or 3.0 percent because of scheduled note and capital lease repayments during the year and the refinancing of the Federal Railroad Administration (FRA) Bond.

## **Prior Year**

Net position increased by approximately \$19.0 million, or 5.6 percent during the previous fiscal year, due mainly to capital contributions used to fund system improvements.

The largest portion of VRE's net position, \$279.9 million or 77.7 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 \$0.03 million or 0.3 percent. A portion of VRE's restricted net position, \$10.5 million, represents resources that are restricted for the liability insurance plan.

Capital assets, net of accumulated depreciation and amortization, increased approximately \$2.3 million or 0.7 percent as the result of the delivery of five additional railcars, and reduction in value of the Hamilton to Crossroads third main track project due to over-accrual of costs prior to capitalization in fiscal year 2016.

Current liabilities decreased approximately \$2.7 million or 15.4 percent as the result of minor changes in various line items.

Noncurrent liabilities and deferred inflows of resources decreased approximately \$3.5 million or 5.3 percent because of scheduled note and capital lease repayments during the year.

## 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.

	2018	2017	2016
Operating revenues:			
Passenger revenue	\$ 42,221,002	\$ 42,280,669	\$ 37,696,913
Equipment rentals and other	269,168	301,621	240,052
<b>Total operating revenues</b>	<b>42,490,170</b>	<b>42,582,290</b>	<b>37,936,965</b>
Nonoperating revenues:			
Subsidies:			
Commonwealth of Virginia	17,145,270	18,265,581	16,572,077
Federal – with PRTC as grantee	15,362,802	15,937,225	13,917,534
Jurisdictional contributions	17,250,240	17,250,240	16,428,800
Regional transportation funding (NVT A)	766,586	461,889	542,671
Interest income	749,062	384,457	163,318
Gain (loss) on disposal of assets	(551,457)	3,500	-
<b>Total nonoperating revenues, net</b>	<b>50,722,503</b>	<b>52,302,892</b>	<b>47,624,400</b>
<b>Total revenues</b>	<b>93,212,673</b>	<b>94,885,182</b>	<b>85,561,365</b>
Operating expenses:			
Contract operations and maintenance	26,917,081	25,873,933	24,082,615
Other operations and maintenance	17,492,047	14,461,209	13,662,606
Property leases and access fees	16,693,442	16,236,606	15,175,732
Insurance	3,766,321	3,970,753	4,046,198
Marketing and sales	2,529,388	2,532,214	2,393,332
General and administrative	11,651,412	10,904,945	10,514,343
<b>Total operating expenses</b>	<b>79,049,691</b>	<b>73,979,660</b>	<b>69,874,826</b>
Other expenses:			
Depreciation and amortization	18,201,071	17,737,170	16,953,565
Interest, financing costs and other	3,147,164	3,217,756	3,384,762
<b>Total other expenses</b>	<b>21,348,235</b>	<b>20,954,926</b>	<b>20,338,327</b>
<b>Total expenses</b>	<b>100,397,926</b>	<b>94,934,586</b>	<b>90,213,153</b>
Deficit before capital contributions and extraordinary item	(7,185,253)	(49,404)	(4,651,788)
Capital grants and assistance:			
Commonwealth of Virginia grants	13,010,326	3,033,657	9,826,429
Federal grants – with PRTC as grantee	9,559,056	15,204,474	22,125,460
Regional transportation funding (NVT A)	615,190	651,163	-
In-kind and other local contributions	12,842	162,839	851,659
<b>Total capital grants and assistance</b>	<b>23,197,414</b>	<b>19,052,133</b>	<b>32,803,548</b>
Extraordinary item	-	-	(1,882,945)
<b>Change in net position</b>	<b>16,012,161</b>	<b>19,002,729</b>	<b>26,268,815</b>
Net position – beginning of year, as restated	359,634,035	341,053,259	314,784,444
Net position – end of year	\$ 375,646,196	\$ 360,055,988	\$ 341,053,259

The earliest year presented has not been restated for implementation of GASB Statement No. 75 due to a lack of available information on other postemployment benefits (OPEB – GLI) provided by VRS.

## Revenues

### Current Year

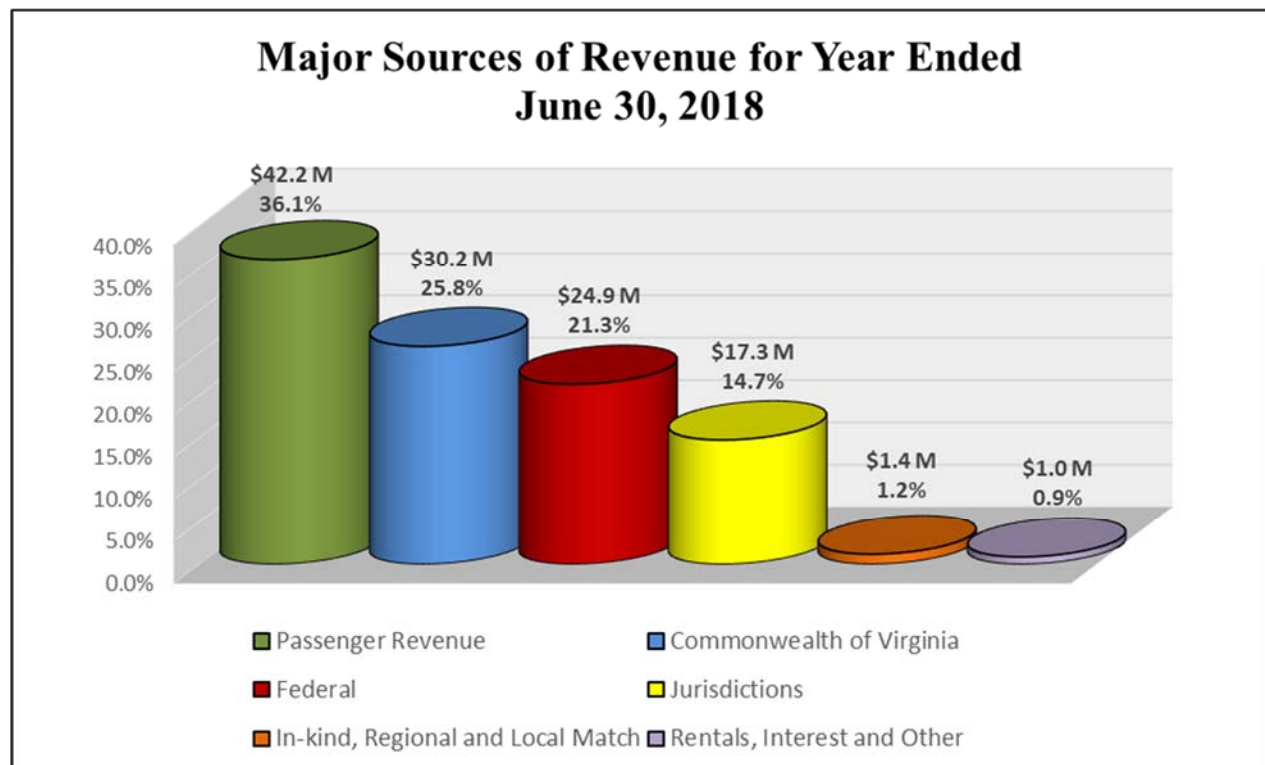
Total revenues for the current fiscal year decreased approximately \$1.7 million or 1.8 percent. Operating revenues totaled approximately \$42.5 million, a decrease of 0.2 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs were unchanged from fiscal year 2017. State, federal and regional subsidies decreased by \$1.4 million, primarily as the result of a decrease to the state operating assistance grant.

Passenger revenue decreased approximately \$0.05 million or 0.1 percent, reflecting three fewer service days in fiscal year 2018, and a year of generally stable and consistent service levels, transit subsidies and local transportation conditions. Ridership decreased by 1.2 percent as the result of the same factors. Average daily ridership was 18,974 in fiscal year 2018 compared to 18,968 in fiscal year 2017, or essentially unchanged.

	June 30,		
	2018	2017	2016
Ridership	4,705,529	4,761,035	4,441,858
% Increase (Decrease)	(1.2%)	7.2%	(3.8%)

Capital grants and assistance increased approximately \$4.1 million or 21.8 percent; this increase is attributed to the delivery of nine grant funded railcars, compared to five in the prior year, and the completion of the Lorton Station main platform expansion project. VRE continues to be in a period with many current projects in early stages of development and not yet having initiated major construction.

The following chart shows the major sources of revenues for the year ended June 30, 2018:



## **Prior Year**

Total revenues for the prior fiscal year increased approximately \$9.3 million or 10.9 percent. Operating revenues totaled approximately \$42.6 million, an increase of 12.2 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs increased by approximately \$821,000. State, federal and regional subsidies increased by \$3.6 million, primarily as the result of an increase to the state operating assistance grant and grant funding for asset management.

Passenger revenue increased approximately \$4.6 million or 12.2 percent, reflecting a full year of increased federal transit benefits started in January 2016, a full year of operation of the new Fredericksburg Line train begun mid-year in fiscal year 2016, as well as the effects of WMATA's SafeTrack program on VRE ridership. Ridership increased by 7.2 percent as the result of the same factors.

Capital grants and assistance decreased approximately \$13.8 million or 41.9 percent; this decrease is attributed to the delivery of five grant funded railcars, compared to seven in the prior year, with no other completed capital projects and with many current projects in early stages of development and not yet having initiated major construction.

## **Expenses**

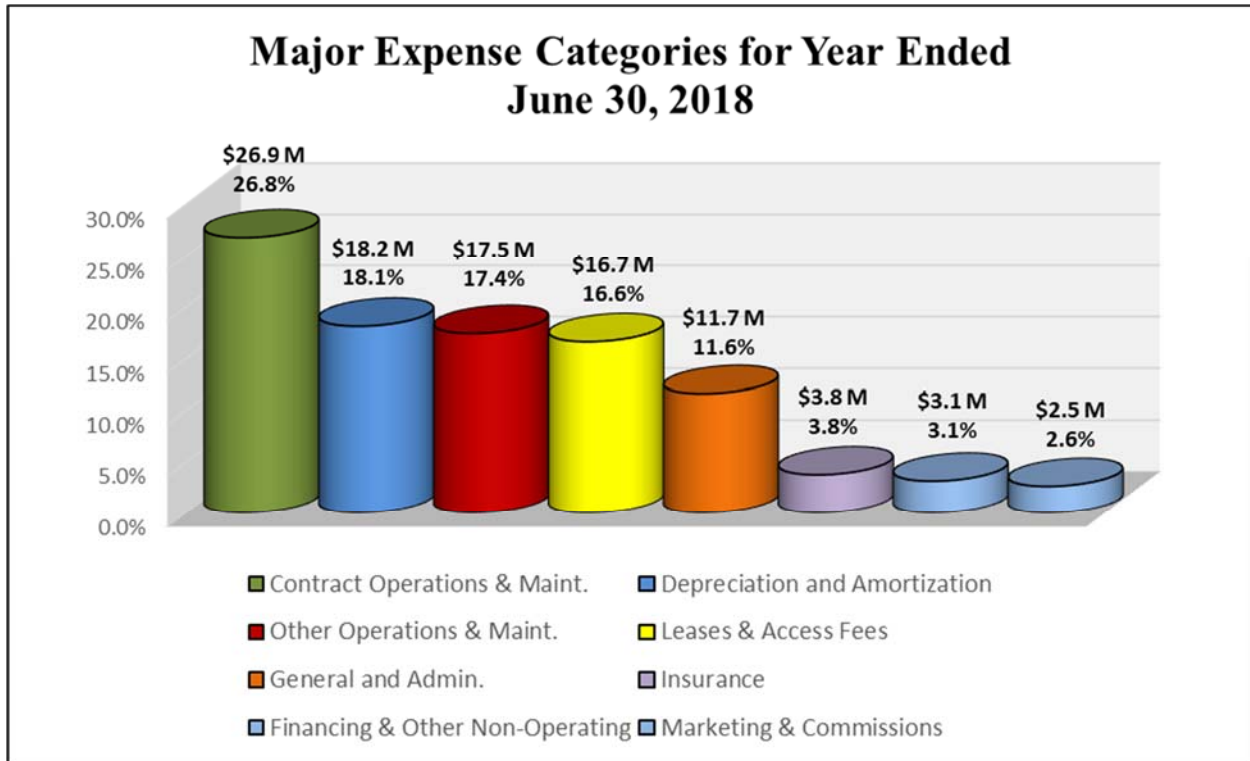
### **Current Year**

Total operating and other expenses, including depreciation and amortization, increased by approximately \$5.5 million or 5.8 percent. Operating expenses increased by approximately \$5.1 million or 6.9 percent. Total operating expenses were approximately \$79.0 million compared to \$74.0 million for the prior fiscal year.

Contract operations and maintenance increased by approximately \$1.0 million or 4.0 percent, reflecting contractual increases, increased maintenance efforts and enhancements to train operations and maintenance services. Property lease and access fee costs increased by approximately \$0.5 million or 2.8 percent as the result of regular contractual increases and a generally stable level of service. Other operations and maintenance costs increased by \$3.0 million or 21.0 percent due primarily to an increase in asset management maintenance expenses, increases in diesel fuel costs and increased costs of railcar maintenance. General and administrative costs increased by \$0.7 million or 6.8 percent due to increased consulting and professional services costs. Depreciation and amortization increased by approximately \$0.5 million or 2.6 percent and net interest and financing costs decreased by approximately \$0.1 million or 2.2 percent.



The following chart shows the major expense categories for the year ended June 30, 2018:



#### Prior Year

Total operating and other expenses, including depreciation and amortization, increased by approximately \$4.7 million or 5.2 percent in the previous year. Operating expenses increased by approximately \$4.1 million or 5.9 percent. Total operating expenses were approximately \$74.0 million compared to \$69.9 million for the prior fiscal year.

Contract operations and maintenance increased by approximately \$1.8 million or 7.4 percent, reflecting the first full fiscal year of a new Fredericksburg Line train, regular contractual increases and enhancements to train operations and maintenance services. Property lease and access fee costs increased by approximately \$1.1 million or 7.0 percent as the result of regular contractual increases and the first full year addition of a new train. Other operations and maintenance costs increased by \$0.8 million or 5.8 percent due primarily to an increase in asset management maintenance expenses. General and administrative costs increased by \$0.4 million or 3.7 percent due to the addition of four staff positions. Depreciation and amortization increased by approximately \$0.8 million or 4.6 percent and net interest and financing costs decreased by approximately \$0.2 million or 4.9 percent.

## Capital Assets and Debt Administration

### Capital Assets

VRE's investment in capital assets as of June 30, 2018 totals approximately \$353 million (net of accumulated depreciation and amortization). Investment in capital assets includes the items identified in the table below. Acquisitions are funded from a variety of sources, including loans and grants from various government agencies and other local sources.

	2018	2017	2016
Rolling stock	\$ 285,279,918	\$ 270,949,091	\$ 264,755,076
Vehicles	117,043	167,422	138,310
Facilities	105,935,704	103,480,888	103,494,551
Track and signal improvements	83,434,528	83,485,350	84,700,564
Equipment and software	12,126,666	12,126,666	12,126,666
Construction in progress	27,297,997	23,904,164	13,896,672
Equity in property of others	5,787,287	5,787,287	5,787,287
Furniture, equipment and software	5,711,211	5,550,152	5,489,336
	<b>525,690,354</b>	<b>505,451,020</b>	<b>490,388,462</b>
Less accumulated depreciation and amortization	<b>(172,891,474)</b>	<b>(159,245,676)</b>	<b>(146,463,913)</b>
<b>Total capital assets, net</b>	<b>\$ 352,798,880</b>	<b>\$ 346,205,344</b>	<b>\$ 343,924,549</b>

### Current Year

During fiscal year 2018, capital assets increased approximately \$6.6 million or 1.9 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$21.2 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. Seven fully depreciated Gallery-style railcars were sold to Foxville & Northern Railroad Company in Pelion, SC, in fiscal year 2018.

The major completed projects during the fiscal year were the delivery of nine Gallery railcars (\$18.8 million) that were placed into service, and the Lorton Station main platform expansion (\$2.4 million).

The major additions to construction in progress during the fiscal year were costs related to acquisition of nine new Gallery railcars (\$18.3 million); the Lorton Station main platform expansion (\$1.3 million); work toward both the L'Enfant Storage Track North (\$0.8 million); ongoing work toward implementation of Positive Train Control (PTC) (\$0.8 million); and development work for the Midday Storage Yard project (\$0.6 million).

VRE sold obsolete and surplus inventory consisting of locomotive and railcar parts (a non-capital asset) in fiscal year 2018 for a net loss on sale of \$564,707. These parts were determined to be no longer useful to VRE, and VRE solicited offers from railroad operators and recycling firms to either sell or scrap the parts. VRE sold the surplus parts for \$1.00 to Foxville & Northern Railroad Company, which covered all costs of removing and transporting the surplus parts.

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 2017, capital assets increased approximately \$2.3 million or 0.7 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$11.1 million were transferred from construction in progress to their respective capital accounts and an additional \$0.1 million was charged directly to the capital accounts. Seven fully depreciated Gallery-style railcars were sold to Metra in Chicago in fiscal year 2017.

The major completed project during the fiscal year was the completion of five Gallery railcars (\$11.1 million) that were placed into service.

The major additions to construction in progress during the fiscal year were costs related to acquisition of five new Gallery railcars (\$10.5 million), ongoing work toward implementation of Positive Train Control (PTC) (\$2.9 million); work toward both the L'Enfant Storage Track North (\$1.5 million) and L'Enfant Storage Track South (\$1.4 million) and development work for the Midday Storage Yard project (\$1.0 million).

In addition, capital asset valuation adjustments were made to two projects capitalized in fiscal year 2016; Hamilton to Crossroads (Spotsylvania) Third Main Track project (a reduction of \$1.2 million) related to lower than expected actual costs compared to accrued costs; and the Spotsylvania Station project (a reduction of \$13,663) related to a refund of project related costs.

## **Debt Administration**

At June 30, 2018, VRE had total debt outstanding of \$58,109,202.

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 for the purchase of 60 Gallery railcars was issued by NVTC, but both NVTC and PRTC were signatories. This note was previously designated to the Federal Railroad Administration (FRA) as lender but was delegated to the Build America Bureau of the United States Department of Transportation in fiscal year 2017. This delegation had no effect on the terms of the note. The note was secured by the revenues of VRE and the rolling stock.

In fiscal year 2018, VRE entered into a financing agreement with the Virginia Resources Authority (VRA) for the purposes of refunding the FRA promissory note and reducing VRE's debt service costs. As required by the authorizing resolutions of the Commissions and jurisdictions, the VRA refunding loan did not extend the term of the original borrowing and achieved net present value debt service savings of not less than three percent. The FRA note was refunded in full with the proceeds from the VRA financing, and VRE has pledged its revenues to the repayment of the principal, premium, and interest on the local bond purchased by VRA.

The capital leases for three multifunction copiers are secured by the related equipment.

	<b>2018</b>	2017	2016
Bond payable	<b>\$ 46,640,000</b>	\$ -	\$ -
Capital leases	<b>11,469,202</b>	12,844,704	14,158,954
Note payable	-	53,440,159	55,628,942
<b>Total</b>	<b>\$ 58,109,202</b>	\$ 66,284,863	\$ 69,787,896

See Note 4 for additional information related to long-term debt activity.

## **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 support 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 2019 increased by 3.0 percent to \$17,767,748. Fares were held constant; the last general fare increase was 3.0 percent in fiscal year 2018. In fiscal year 2019 VRE will begin to receive funding from the Commonwealth of Virginia Commuter Rail Operating and Capital (C-ROC) Fund as a result of Virginia HB1539. Additional sources of funding will be available in fiscal year 2019 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, Suite 202, Alexandria, Virginia 22314-2730 or by e-mail to [mschofield@vre.org](mailto:mschofield@vre.org).

## **Basic Financial Statements**

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# VIRGINIA RAILWAY EXPRESS

## STATEMENTS OF NET POSITION June 30, 2018 and 2017

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2018</b>	<b>2017</b>
Current Assets:		
Cash and cash equivalents	\$ 51,186,348	\$ 49,101,840
Accounts receivable:		
Due from PRTC – FTA and other	13,007,142	16,143,311
Commonwealth of Virginia grants	9,824,555	7,409,568
Trade receivables, net of allowance for doubtful accounts	2,687,658	2,017,394
Other receivables	1,776,165	1,342,975
Inventory	3,289,547	3,928,722
Prepaid expenses and other	144,779	144,596
Restricted cash, cash equivalents and investments	13,627,126	11,249,729
<b>Total current assets</b>	<b>95,543,320</b>	<b>91,338,135</b>
Noncurrent Assets:		
Pension asset	292,569	-
Capital assets:		
Rolling stock	285,279,918	270,949,091
Vehicles	117,043	167,422
Facilities	105,935,704	103,480,888
Track and signal improvements	83,434,528	83,485,350
Equipment and software	12,126,666	12,126,666
Construction in progress	27,297,997	23,904,164
Equity in property of others	5,787,287	5,787,287
Furniture, equipment and software	5,711,211	5,550,152
	525,690,354	505,451,020
Less accumulated depreciation and amortization	(172,891,474)	(159,245,676)
<b>Total capital assets, net</b>	<b>352,798,880</b>	<b>346,205,344</b>
<b>Total noncurrent assets</b>	<b>353,091,449</b>	<b>346,205,344</b>
<b>Total assets</b>	<b>448,634,769</b>	<b>437,543,479</b>
Deferred Outflows of Resources:		
Loss on refunding	455,136	-
Pension plan	371,696	646,262
Other postemployment benefits	57,483	-
<b>Total deferred outflows of resources</b>	<b>884,315</b>	<b>646,262</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 449,519,084</b>	<b>\$ 438,189,741</b>

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

	2018	2017
Current Liabilities:		
Accounts payable	\$ 2,561,150	\$ 1,795,940
Payable to Commissions	1,390,585	2,706,596
Compensated absences	78,442	31,152
Accrued expenses	2,342,368	3,854,455
Accrued interest	567,826	204,412
Unearned revenue	1,702,378	1,836,781
Contract retainage	-	582,456
Current portion of bonds payable	2,280,000	-
Current portion of capital lease obligations	1,436,789	1,375,502
Current portion of note payable	-	2,290,688
<b>Total current liabilities</b>	<b>12,359,538</b>	<b>14,677,982</b>
Noncurrent Liabilities:		
Pension Liability	-	311,424
Other postemployment benefits	416,035	-
Bonds payable	50,232,848	-
Capital lease obligations	10,032,413	11,469,202
Note payable	-	51,149,471
Compensated absences	535,440	525,674
<b>Total noncurrent liabilities</b>	<b>61,216,736</b>	<b>63,455,771</b>
<b>Total liabilities</b>	<b>73,576,274</b>	<b>78,133,753</b>
Deferred Inflows of Resources:		
Pension plan	250,454	-
Other postemployment benefits	46,160	-
<b>Total deferred inflows of resources</b>	<b>296,614</b>	<b>-</b>
Net Position:		
Net investment in capital assets	289,271,966	279,920,481
Restricted for liability insurance plan	10,536,336	10,470,506
Restricted for debt service	1,996,544	-
Restricted grants or contributions	1,094,246	779,223
Unrestricted assets	72,747,104	68,885,778
<b>Total net position</b>	<b>375,646,196</b>	<b>360,055,988</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 449,519,084</b>	<b>\$ 438,189,741</b>



# VIRGINIA RAILWAY EXPRESS

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Passenger revenue	\$ 42,221,002	\$ 42,280,669
Equipment rentals and other	269,168	301,621
<b>Total operating revenues</b>	<b>42,490,170</b>	42,582,290
Operating Expenses:		
Contract operations and maintenance	26,917,081	25,873,933
Other operations and maintenance	17,492,047	14,461,209
Property leases and access fees	16,693,442	16,236,606
Insurance	3,766,321	3,970,753
Marketing and sales	2,529,388	2,532,214
General and administrative	11,651,412	10,904,945
<b>Total operating expenses</b>	<b>79,049,691</b>	73,979,660
<b>Operating loss before depreciation and amortization</b>	<b>(36,559,521)</b>	(31,397,370)
Depreciation and amortization	(18,201,071)	(17,737,170)
<b>Operating loss</b>	<b>(54,760,592)</b>	(49,134,540)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	17,145,270	18,265,581
Federal grants – with PRTC as grantee	15,362,802	15,937,225
Jurisdictional contributions	17,250,240	17,250,240
Regional transportation funding (NVTA)	766,586	461,889
Interest income:		
Operating funds	616,228	285,495
Insurance trust	132,037	98,560
Other restricted funds	797	402
Gain (loss) on disposal of assets	(551,457)	3,500
Interest, amortization and other nonoperating expenses, net	(3,147,164)	(3,217,756)
<b>Total nonoperating revenues, net</b>	<b>47,575,339</b>	49,085,136
Capital Grants and Assistance:		
Commonwealth of Virginia grants	13,010,326	3,033,657
Federal grants – with PRTC as grantee	9,559,056	15,204,474
Regional transportation funding (NVTA)	615,190	651,163
Local contributions	12,842	162,839
<b>Total capital grants and assistance</b>	<b>23,197,414</b>	19,052,133
<b>Change in net position</b>	<b>16,012,161</b>	19,002,729
Net Position, beginning of year, as restated July 1, 2017	359,634,035	341,053,259
Net Position, ending	<b>\$ 375,646,196</b>	\$ 360,055,988

# VIRGINIA RAILWAY EXPRESS

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 41,737,415	\$ 42,925,300
Payments to suppliers	(69,908,763)	(69,103,202)
Payments to employees	(8,269,352)	(6,125,806)
<b>Net cash used in operating activities</b>	<b>(36,440,700)</b>	<b>(32,303,708)</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Governmental subsidies	<b>39,309,935</b>	57,169,240
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(28,146,040)	(21,636,193)
Capital grants and assistance	34,648,457	24,223,596
Proceeds from sale of capital assets	3,500	3,500
Principal paid on capital lease obligations	(1,375,502)	(1,314,250)
Principal paid on notes	(1,712,817)	(2,188,783)
Interest paid on capital lease obligation	(575,103)	(632,868)
Interest paid on bonds and notes	(1,998,887)	(2,598,877)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>843,608</b>	<b>(4,143,875)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest received on investments	749,062	384,457
<b>Increase in cash and cash equivalents</b>	<b>4,461,905</b>	21,106,114
Cash and Cash Equivalents, beginning	60,351,569	39,245,455
Cash and Cash Equivalents, ending	<b>\$ 64,813,474</b>	<b>\$ 60,351,569</b>
<b>Reconciliation of Operating Loss to Net Cash Used In Operating Activities:</b>		
Operating loss	\$ (54,760,592)	\$ (49,134,540)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	18,201,071	17,737,170
Pension benefit (expense)	87,465	(15,035)
Other postemployment benefits expense	10,061	-
(Increase) decrease in:		
Accounts receivable	(670,264)	162,883
Other receivables	51,912	31,035
Inventory	74,467	63,527
Prepaid expenses and other	(183)	(5,960)
Deferred outflows of resources – pension contributions	8,492	30,750
Deferred outflows of resources – other postemployment benefits contributions	(27,301)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	718,575	(1,322,630)
Unearned revenue	(134,403)	149,092
<b>Net cash used in operating activities</b>	<b>\$ (36,440,700)</b>	<b>(32,303,708)</b>
<b>Schedule of Noncash Capital Activities:</b>		
Capital assets acquired through accounts payable	\$ 392,387	\$ 627,048
Capital assets acquired through accrued liabilities	73,500	2,563,245
Deferred loss acquired via refinance	462,851	-
Premium on bond acquired via refinance	5,972,388	-
Note payable repaid via refinance	51,727,342	-

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### **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 revenue alone to produce positive operating income. In addition to fares, the system is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan (refinanced in fiscal year 2018 to a bond), lease financing, Federal (with PRTC as grantee) and Commonwealth of Virginia (with NVTC as grantee) grants, NVTA regional grants, 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.

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

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### 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 fares paid by 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), is reported at amortized cost.

**Restricted cash and cash equivalents:** Restricted cash, cash equivalents and investments of \$13,627,126 and \$11,249,729 at June 30, 2018 and 2017, respectively, are comprised of funds related to the balance in the Liability Insurance Plan, a small liability claims account, a debt service reserve fund for the VRA Bond and funds related to a property transfer with restricted future uses.

**Allowance for uncollectible accounts:** VRE calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance was \$211,000 and \$212,000 at June 30, 2018 and 2017, 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 and warehouse facility. 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

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### 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	3-5 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, 2018 and 2017.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### 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 has five items that qualify for reporting in this category. The first item relates to the deferred loss on refinancing. The remaining four items relate to the pension plan and group life insurance program (GLI) other postemployment benefits (OPEB) plan. See Notes 5 and 6 for details regarding these items.

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 five items that qualify for reporting in this category. See Notes 5 and 6 for details regarding these items.

**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.

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

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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

**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 October 30, 2018, which was the date the financial statements were available to be issued.

### 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.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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

**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

**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, 2018 and 2017, the book balance of VRE's deposits with banks was \$5,363,234 and \$9,977,646, 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. Interest rate risk does not apply to LGIP since it is an external investment pool classified in accordance with GASB Statement No. 79.



# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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

**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%

At June 30, 2018 and 2017, VRE had investments of \$46,971,792 and \$39,177,828, 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. VRE's investments in the LGIP are stated at amortized cost and classified as cash and cash equivalents. The LGIP has been assigned an "AAAm" rating by Standard & Poor's. The maturity of the LGIP is less than one year.

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, 2018 and 2017, VRE had \$10,481,904 and \$10,461,871, 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 years 2018 and 2017, earnings on the Insurance Trust in the amount of \$132,037 and \$98,560, respectively, were credited to VRE. The Insurance Trust Fund has not been assigned a rating.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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

In accordance with the requirements of the Financing Agreement between the Virginia Resources Authority (VRA) and NVTC, a debt service reserve fund (DSRF) was established for the benefit of VRA. On the closing date of the VRA financing, VRE transferred \$2 million into the DSRF from its existing cash reserves. The funds in the DSRF shall be used solely to cure any deficiencies in the payment by VRE of any principal, premium, or interest associated with the VRA financing. The funds in the DSRF are held in custody at U.S. Bank and are managed by PFM Asset Management LLC through the Virginia State Non-Arbitrage Program (SNAP). The Virginia Treasury Board sponsors SNAP to provide comprehensive investment management, accounting and arbitrage rebate calculation services for the proceeds of tax-exempt borrowings and other financings of Virginia Issuers subject to Section 148 (and related sections) of the Internal Revenue Code. The funds in the DSRF are invested in U.S. Treasury notes rated AA+ by Standard and Poor's maturing in under two (2) years and in the SNAP Fund, a AAAM rated local government investment pool that complies with GASB Statement 79. At June 30, 2018 and 2017, VRE had \$1,996,544 and \$0, respectively, invested in the VRA Debt Service Reserve Fund.

As of June 30, 2018 and 2017, the carrying values and maturity of VRE's investments were as follows:

Investment Type	2018	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 46,971,792	\$ 46,971,792
Insurance trust fund – pooled funds	10,481,904	10,481,904
VRA debt service reserve fund	1,996,544	1,996,544
<b>Total investments</b>	<b>\$ 59,450,240</b>	<b>\$ 59,450,240</b>

Investment Type	2017	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 39,177,828	\$ 39,177,828
Insurance trust fund – pooled funds	10,416,871	10,416,871
<b>Total investments</b>	<b>\$ 49,594,699</b>	<b>\$ 49,594,699</b>

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 the following investment subject to fair value measurements:

- U.S. Treasury securities of \$1,996,544 as of June 30, 2018, which are valued using quoted prices in an active market for identical assets (Level 1 inputs).

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 23,904,164	\$ 24,562,151	\$ -	\$ (21,168,318)	\$ 27,297,997
Capital assets being depreciated or amortized:					
Rolling stock	270,949,091	-	(4,476,608)	18,807,435	285,279,918
Vehicles	167,422	28,286	(78,665)	-	117,043
Facilities	103,480,888	93,933	-	2,360,883	105,935,704
Track and signal improvements	83,485,350	-	(50,822)	-	83,434,528
Equipment and software	12,126,666	-	-	-	12,126,666
Equity in property of others	5,787,287	-	-	-	5,787,287
Furniture, equipment and software	5,550,152	161,059	-	-	5,711,211
<b>Total capital assets being depreciated or amortized</b>	<b>481,546,856</b>	<b>283,278</b>	<b>(4,606,095)</b>	<b>21,168,318</b>	<b>498,392,357</b>
Less accumulated depreciation or amortization for:					
Rolling stock	75,187,199	11,224,734	(4,476,608)	-	81,935,325
Vehicles	105,175	20,580	(78,665)	-	47,090
Facilities	38,389,881	3,135,568	-	-	41,525,449
Track and signal improvements	26,563,391	2,814,168	-	-	29,377,559
Equipment and software	10,672,766	706,856	-	-	11,379,622
Equity in property of others	3,636,668	167,245	-	-	3,803,913
Furniture, equipment and software	4,690,596	131,920	-	-	4,822,516
<b>Total accumulated depreciation or amortization</b>	<b>159,245,676</b>	<b>18,201,071</b>	<b>(4,555,273)</b>	<b>-</b>	<b>172,891,474</b>
<b>Total capital assets being depreciated or amortized, net</b>	<b>322,301,180</b>	<b>(17,917,793)</b>	<b>(50,822)</b>	<b>21,168,318</b>	<b>325,500,883</b>
<b>Totals</b>	<b>\$ 346,205,344</b>	<b>\$ 6,644,358</b>	<b>\$ (50,822)</b>	<b>\$ -</b>	<b>\$ 352,798,880</b>

Note: The chart above reflects the completion of the nine new railcars project at a value of \$18.8 million and the Lorton Station main platform expansion project at a value of \$2.4 million. VRE sold seven fully depreciated Gallery-style railcars to Foxville & Northern Railroad Company in Pelion, SC, in fiscal year 2018, with a value of \$4.5 million. Additionally, VRE traded in three fully depreciated vehicles at a value of approximately \$79,000 toward the purchase of a single new replacement vehicle at a value of approximately \$28,000.

The chart also reflects a reduction of approximately \$51,000 in track and signal asset value. This reduction is due to an over estimation and accrual of expected remaining project costs at the time of value adjustment in fiscal year 2017, and a refund of project costs in fiscal year 2018. Subsequent payment activity identified this over-accrual, leading to the reduction of the final asset cost.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 13,896,672	\$ 21,156,914	\$ -	\$ (11,149,422)	\$ 23,904,164
Capital assets being depreciated or amortized:					
Rolling stock	264,755,076	-	(4,955,407)	11,149,422	270,949,091
Vehicles	138,310	29,112	-	-	167,422
Facilities	103,494,551	-	(13,663)	-	103,480,888
Track and signal improvements	84,700,564	-	(1,215,214)	-	83,485,350
Equipment and software	12,126,666	-	-	-	12,126,666
Equity in property of others	5,787,287	-	-	-	5,787,287
Furniture, equipment and software	5,489,336	60,816	-	-	5,550,152
<b>Total capital assets being depreciated or amortized</b>	<b>476,491,790</b>	<b>89,928</b>	<b>(6,184,284)</b>	<b>11,149,422</b>	<b>481,546,856</b>
Less accumulated depreciation or amortization for:					
Rolling stock	69,517,009	10,625,597	(4,955,407)	-	75,187,199
Vehicles	90,335	14,840	-	-	105,175
Facilities	35,298,586	3,091,295	-	-	38,389,881
Track and signal improvements	23,765,242	2,798,149	-	-	26,563,391
Equipment and software	9,917,802	754,964	-	-	10,672,766
Equity in property of others	3,466,770	169,898	-	-	3,636,668
Furniture, equipment and software	4,408,169	282,427	-	-	4,690,596
<b>Total accumulated depreciation or amortization</b>	<b>146,463,913</b>	<b>17,737,170</b>	<b>(4,955,407)</b>	<b>-</b>	<b>159,245,676</b>
<b>Total capital assets being depreciated or amortized, net</b>	<b>330,027,877</b>	<b>(17,647,242)</b>	<b>(1,228,877)</b>	<b>11,149,422</b>	<b>322,301,180</b>
<b>Totals</b>	<b>\$ 343,924,549</b>	<b>\$ 3,509,672</b>	<b>\$ (1,228,877)</b>	<b>\$ -</b>	<b>\$ 346,205,344</b>

### Note 4. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital leases	\$ 12,844,704	\$ -	\$ (1,375,502)	\$ 11,469,202	\$ 1,436,789
Bond payable	-	46,640,000	-	46,640,000	2,280,000
Note payable	53,440,159	-	(53,440,159)	-	-
Unamortized premium	-	5,972,388	(99,540)	5,872,848	-
	66,284,863	52,612,388	(54,915,201)	63,982,050	3,716,789
Compensated absences	556,826	409,921	(352,865)	613,882	78,442
	\$ 66,841,689	\$ 53,022,309	\$ (55,268,066)	\$ 64,595,932	\$ 3,795,231

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### 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 \$15,198,141.

\$ 11,451,643

Future minimum lease payments as of June 30, 2018 are as follows:

Years Ending June 30,	Amount
2019	\$ 1,931,357
2020	1,931,357
2021	1,931,357
2022	1,931,357
2023	1,931,357
2024-2025	<u>3,862,714</u>
Total minimum lease payments	13,519,499
Less amount representing interest	<u>2,067,856</u>
<b>Present value of lease payments</b>	<b><u>\$ 11,451,643</u></b>

#### Capitalized Lease – copiers

\$73,425 capitalized lease obligations; \$1,329 due monthly, interest at 9.39%, maturing in 2020; \$330 due monthly, interest at 11.73%, maturing in 2018, collateralized with three multifunction copiers with a carrying value of \$12,690.

\$ 17,559

Future minimum lease payments as of June 30, 2018 are as follows:

Years Ending June 30,	Amount
2019	\$ 15,948
2020	<u>2,658</u>
Total minimum lease payments	18,606
Less amount representing interest	<u>1,047</u>
<b>Present value of lease payments</b>	<b><u>\$ 17,559</u></b>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Long-Term Debt Obligations (Continued)

#### Note Payable – Gallery IV (60 cars)/VRA Bond Payable

In fiscal year 2008, VRE entered into an agreement with the Federal Railroad Administration (FRA) 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 was secured by the revenues of VRE and the railcars.

In fiscal year 2018, VRE entered into a financing agreement with the Virginia Resources Authority (VRA) for the purposes of refunding the FRA consolidated promissory note and reducing VRE's debt service costs. As required by the authorizing resolutions of the Commissions and jurisdictions, the VRA refunding loan did not extend the term of the original borrowing and achieved net present value debt service savings of not less than three percent. The FRA note was refunded in full with the proceeds from the VRA financing, and VRE has pledged its revenues to the repayment of the principal, premium, and interest on the local bond purchased by VRA.

VRA Bond payable, \$46,640,000 Bond, due in variable bi-annual amounts, plus a bi-annual variable interest rate of 3.83% to 5.13% through October 1, 2032.

The carrying value of the railcars was \$70,031,124 at June 30, 2018. \$ 46,640,000

Mandatory debt service on Bond payable requirements are as follows:

Years Ending June 30,	Principal	Interest	Total Required
2019	\$ 2,280,000	\$ 2,010,993	\$ 4,290,993
2020	2,240,000	2,050,400	4,290,400
2021	2,350,000	1,939,481	4,289,481
2022	2,475,000	1,815,841	4,290,841
2023	2,605,000	1,685,666	4,290,666
2023-2028	15,235,000	6,222,272	21,457,272
2029-2033	19,455,000	2,001,384	21,456,384
Subtotal	46,640,000	17,726,037	64,366,037
Unamortized premium	5,872,848	-	-
<b>Total</b>	<b>\$ 52,512,848</b>	<b>\$ 17,726,037</b>	<b>\$ 64,366,036</b>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### 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 a VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>About Plan 1</b>  Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	<b>About Plan 2</b>  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.	<b>About the Hybrid Retirement Plan</b>  The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <ul style="list-style-type: none"><li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li><li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li><li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li></ul>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Pension Plan (Continued)

#### A. Plan Description (Continued)

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

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### Note 5. Pension Plan (Continued)

#### A. Plan Description (Continued)

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b> 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><b>Creditable Service</b> 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><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component</u></b> 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><b><u>Defined Contribution Component</u></b> 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

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### Note 5. Pension Plan (Continued)

#### A. Plan Description (Continued)

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

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Pension Plan (Continued)

#### A. Plan Description (Continued)

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component</u></b> See definition under Plan 1</p> <p><b><u>Defined Contribution Component</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p><b>Service Retirement Multiplier</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> <b><u>Defined Benefit Component</u></b> 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><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <b><u>Defined Benefit Component</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Earliest Unreduced Retirement Eligibility</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component</u></b> 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><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <b><u>Defined Benefit Component</u></b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b><u>Defined Contribution Component</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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><b><u>Eligibility:</u></b> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p>

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>                      The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul> <p><b>Disability Coverage</b>                      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><b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>                      Same as Plan 1.</p> <p><b>Disability Coverage</b>                      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><b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>                      Same as Plan 1 and Plan 2.</p> <p><b>Disability Coverage</b>                      Eligible political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</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**

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**Note 5. Pension Plan (Continued)**

A. Plan Description (Continued)

<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component</u></b> Same as Plan 1, with the following exceptions:  <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul>   <p><b><u>Defined Contribution Component</u></b> Not applicable.</p> </p>

B. Employees Covered by Benefit Terms

As of the June 30, 2016 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>22</u>
Inactive Members:	
Vested	18
Non-vested	27
Active elsewhere in VRS	<u>9</u>
<b>Total inactive members</b>	<u>54</u>
Active Members	<u>91</u>
<b>Total covered employees</b>	<u><u>167</u></u>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Pension Plan (Continued)

#### C. 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, 2018 was 5.37% for Plan 1 and Plan 2 and 4.37% for the Hybrid Plan of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

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 \$237,355 and \$245,847 for the years ended June 30, 2018 and 2017, respectively.

#### D. Net Pension Asset/Liability

VRE's net pension asset/liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

#### E. Actuarial Assumptions

The total pension liability for VRE's retirement plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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### Note 5. Pension Plan (Continued)

#### E. Actuarial Assumptions (Continued)

##### *Mortality Rates*

Mortality Rates:	15% of deaths are assumed to be service related.
- Pre-retirement:	RP-2014 Employee Rates at age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates
- Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.00
- Post-disablement:	RP-2014 Disabled Life Mortality Table Projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### F. 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)

#### F. Long-Term Expected Rate of Return (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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Pension Plan (Continued)

#### G. Discount Rate

The discount rate used to measure the total pension asset 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, 2019, 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, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

#### H. Changes in the Net Pension (Asset) Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2016	\$ 15,244,599	\$ 14,713,522	\$ 531,077
Changes for the year:			
Service cost	756,831	-	756,831
Changes in benefit terms	-	-	-
Interest	1,051,830	-	1,051,830
Changes of assumptions	(243,263)	-	(243,263)
Difference between expected and expected and actual experience	38,724	-	38,724
Contributions – employer	-	419,283	(419,283)
Contributions – employee	-	407,825	(407,825)
Net investment income	-	1,829,732	(1,829,732)
Benefit payments, including refunds of employee contributions	(436,912)	(436,912)	-
Administrative expense	-	(9,970)	9,970
Other changes	-	(1,654)	1,654
Net changes	1,167,210	2,208,304	(1,041,094)
Balance at June 30, 2017	\$ 16,411,809	\$ 16,921,826	\$ (510,017)

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 \$292,569 on its Statements of Net Position based on a percentage of contributions to the plan for fiscal year 2017. VRE's percentage of total contributions to the plan was 57.36 percent. 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)

#### I. Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate

The following presents the net pension asset/liability of VRE, using the discount rate of 7.00 percent, 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 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension (asset) liability	\$ 1,834,373	\$ (510,017)	\$ (2,442,477)

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

For the year ended June 30, 2018, VRE recognized pension expense of (\$78,973). VRE also reported deferred outflows and inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 134,341	\$ -
Changes of assumptions	-	107,467
Net difference between projected and actual earnings on pension plan investments	-	142,987
Employer contributions subsequent to the measurement date	237,355	-
<b>Total</b>	<b>\$ 371,696</b>	<b>\$ 250,454</b>

The \$237,355 reported as deferred outflows of resources related to pensions resulting from VRE's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	\$ (60,707)
2020	46,485
2021	(2,213)
2022	(99,678)
	<b>\$ (116,113)</b>

#### K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR is publicly available through the About VRS link on the VRS website at [www.varetire.org](http://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.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 6. Group Life Insurance Program

#### A. Plan Description

The VRS Group Life Insurance Program (GLI) is an other postemployment benefits (OPEB) plan. All full-time, salaried permanent employees of VRE are automatically covered by the GLI upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

<b>GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS</b>
<p><b>Eligible Employees</b></p> <p>The GLI was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program.</p> <p>Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
<p><b>Benefit Amounts</b></p> <p>The benefits payable under the GLI have several components.</p> <ul style="list-style-type: none"><li>• Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li><li>• Accidental Death Benefit – The accidental death benefit is double the natural death benefit.</li><li>• Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none"><li>○ Accidental dismemberment benefit</li><li>○ Safety belt benefit</li><li>○ Repatriation benefit</li><li>○ Felonious assault benefit</li><li>○ Accelerated death benefit option</li></ul></li></ul>
<p><b>Reduction in Benefit Amounts</b></p> <p>The benefit amounts provided to members covered under the GLI are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p><b>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</b></p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under GLI. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 COLA and is currently \$8,111.</p>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Group Life Insurance Program (Continued)

#### B. Contributions

The contribution requirements for the GLI are governed by Sections 51.1-506 and 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI from VRE were \$27,301 and \$26,631 for the years ended June 30, 2018 and June 30, 2017, respectively.

#### C. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, VRE reported a liability of \$416,035 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the net GLI OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLI for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was \$26,631 or 0.04678% as compared to \$23,665 or 0.4333% at June 30, 2016.

For the year ended June 30, 2018, VRE recognized GLI OPEB expense of \$10,061. Since there was a change in the proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ -	\$ 9,469
Changes of assumptions	-	21,305
Net difference between projected and actual earning on GLI OPEB program investments	-	15,386
Changes in proportion	30,182	-
Employer contributions subsequent to measurement date	27,301	-
	<u>\$ 57,483</u>	<u>\$ 46,160</u>

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 GLI OPEB liability of \$416,035 on its Statements of Net Position based on a percentage of contributions to the plan for fiscal year 2018. VRE's percentage of total contributions to the plan was 59.18 percent. This percentage was used to allocate a portion of the net GLI OPEB liability to VRE.

**VIRGINIA RAILWAY EXPRESS**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 6. Group Life Insurance Program (Continued)**

**C. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)**

The \$27,301 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the net GLI OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,	Amount
2019	\$ (4,143)
2020	(4,143)
2021	(4,143)
2022	(3,549)
	\$ (15,978)

**D. Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Locality – general employees	3.5%-5.35%
Investment rate of return	7.0%, net of investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for 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 the OPEB liabilities.

**Mortality Rates – Non-Largest Ten Locality Employers – General Employees**

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

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

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

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Group Life Insurance Program (Continued)

#### D. Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### E. Net GLI OPEB Liability

The net OPEB liability (NOL) for the GLI represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the GLI is as follows (amounts expressed in thousands):

	<u>GLI OPEB Program</u>
Total GLI OPEB liability	\$ 2,942,426
Plan fiduciary net position	<u>1,437,586</u>
<b>Employers’ net GLI OPEB liability</b>	<b><u>\$ 1,504,840</u></b>
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Group Life Insurance Program (Continued)

#### F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
<b>Total</b>	<b>100.00%</b>		<b>4.80%</b>
		Inflation	2.50%
		* Expected arithmetic nominal return	<b>7.30%</b>

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

#### G. Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by VRE for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.



# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 6. Group Life Insurance Program (Continued)

#### H. Sensitivity of VRE's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents VRE's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what VRE's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
VRE's proportionate share of the GLI net OPEB liability	\$ 538,538	\$ 516,035	\$ 317,205

#### I. Group Life Insurance Program Fiduciary Net Position

Detailed information about the GLI's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

### Note 7. Operating Leases and Agreements

Operating Access Agreements with CSX Transportation 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 track access for commuter rail service. For the years ended June 30, 2018 and 2017, annual track usage fees totaled approximately \$9,888,000 and \$9,545,000, respectively, and facility and other identified costs totaled approximately \$571,000 and \$531,000, respectively. The increase in track usage fees primarily reflects both an annual increase to the base fee, and a one-time historical billing adjustment for Norfolk Southern in fiscal year 2017.

The agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and midday services and electrical power became effective on July 1, 2015. For the years ended June 30, 2018 and 2017, costs for track access and equipment storage totaled approximately \$6,628,000 and \$6,502,000, respectively, and midday maintenance, utility and other services totaled approximately \$4,965,000 and \$4,636,000, respectively. Cost adjustments will be made in fiscal year 2019 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. Separate contracts for maintenance of equipment and facilities became effective for the period beginning July 1, 2016. The cost of train operations and maintenance for the years ended June 30, 2018 and 2017 totaled approximately \$22,060,000 and \$21,331,000, respectively. Costs are based on an annual budget prepared in advance. Costs in fiscal year 2018 reflect contractual increases, added services, including a focus on asset management programs, and additional repair and maintenance services. Costs for fiscal year 2019 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### Note 8. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2018 and 2017, these payments included \$7,187,956 and \$7,011,684 of salary-related costs and \$6,131 and \$8,086 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 \$110,833 and \$87,131 to PRTC during 2018 and 2017, 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 \$66,273 and \$8,481 in 2018 and 2017, respectively. Amounts payable to NVTC and PRTC were \$7,168 and \$1,383,417, respectively, at June 30, 2018 and \$9,072 and \$2,697,523, respectively, at June 30, 2017.

### Note 9. 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 \$140,000 at June 30, 2018 and \$149,000 at June 30, 2017.

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, 2018 and 2017 was as follows:

	<b>2018</b>	2017
Beginning balance, July 1	\$ 10,416,871	\$ 10,386,757
Contribution to reserves	3,700,000	3,900,000
Insurance premiums paid	(3,742,259)	(3,909,349)
Investment income	132,037	98,560
Actuarial and administrative charges	(24,745)	(59,097)
Ending balance, June 30	<u>\$ 10,481,904</u>	<u>\$ 10,416,871</u>

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

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### Note 10. Contingencies and Contractual Commitments

At June 30, 2018, 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 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, 2018:

Stations and Parking Lots	\$ 3,082,662
Rolling Stock	1,390,011
Maintenance and Layover Yards	3,319,017
Track and Signal Improvements	90,486
Other Administrative	<u>315,106</u>
<b>Total</b>	<u><u>\$ 8,197,282</u></u>

The Commissions have received proceeds from several federal 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 controls 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 11. Restatement of Beginning Net Position

The following shows the change to the beginning net position from the amounts previously reported:

Balance at June 30, 2017	\$ 360,055,988
Net adjustment for implementation of GASB Statement No. 75	<u>(421,953)</u>
Balance at June 30, 2017, as restated	<u><u>\$ 359,634,035</u></u>

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### **Note 12. Pending GASB Statements**

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the VRE reporting entity. The statements which might impact VRE are as follows:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (ARO's). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Statement No. 83 will be effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 87, *Leases*, will increase the usefulness of VRE's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, will improve the information that is disclosed in notes related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 will be effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, will (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

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

### **Note 13. Subsequent Events**

In July 2018, VRE placed into service the L'Enfant North Storage Track, a capital improvement project. The project will be capitalized in fiscal year 2019.

In July 2018, the Commissions voted to approve a preferred design concept for the Broad Run Expansion project. While this approval has no immediate financial impact, the choice of a preferred concept will drive future decisions regarding this station location and the material costs and potential revenues related to its improvement.

In July 2018, the VRE Operations Board authorized the Chief Executive Officer to execute a Sole Source Contract with Meteorcomm LLC for five years in the amount of \$3,791,213 including contingency. Meteorcomm is the sole provider of software necessary for communications between VRE locomotives/cab control cars and the host railroads' wayside and back office systems, as required for the implementation and ongoing operations of Positive Train Control (PTC).

# VIRGINIA RAILWAY EXPRESS

## NOTES TO FINANCIAL STATEMENTS

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### **Note 13. Subsequent Events (Continued)**

In September 2018, the VRE Operations Board authorized the Chief Executive Officer to execute a contract amendment with Vanasse Hangen Brustlin, Inc. (VHB), of Vienna, VA to exercise Option B of the Engineering and Environmental Services for the Manassas Park Station Parking Expansion Project Contract, for final design, procurement support and construction administration services in the amount of \$1,744,827, including contingency.

In June 2018, VRE entered into contracts to purchase diesel fuel at set prices for delivery in July and August 2018. The total commitment was for 168,000 gallons of fuel at a total cost of approximately \$380,000. Similarly, in September 2018, VRE entered into contracts to purchase diesel fuel at set prices for delivery in October, November, and December 2018. The total commitment was for 252,000 gallons of fuel at a total cost of approximately \$640,000. In all cases the fuel is for use in the normal course of operations and is not being purchased for resale.

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## **Required Supplementary Information**

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**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM**

	Fiscal Year June 30,				
	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	\$ 528,296	\$ 460,763	\$ 478,465	\$ 419,283	\$ 413,765
Contributions in relation to the CRC	528,296	460,763	478,465	419,283	413,765
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 6,856,560	\$ 7,617,414	\$ 7,711,934	\$ 8,929,025	\$ 8,875,155
Contributions as a percentage of covered payroll	7.70%	6.05%	6.20%	4.70%	4.66%

**Notes to Schedule:**

- (1) 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.
- (2) 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.

See Notes to Required Supplementary Information - Virginia Retirement System.

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF CHANGES IN NET PENSION (ASSET) LIABILITY AND RELATED RATIOS - VIRGINIA RETIREMENT SYSTEM**

	Fiscal Year June 30,			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 722,134	\$ 743,258	\$ 778,686	\$ 756,831
Interest	763,704	850,266	942,652	1,051,830
Changes of benefit terms	-	-	-	-
Changes of assumptions	-	-	-	(243,263)
Differences between expected and actual experience	-	92,275	284,843	38,724
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)
<b>Net change in total pension liability</b>	<b>1,263,313</b>	<b>1,409,867</b>	<b>1,550,103</b>	<b>1,167,210</b>
Total pension liability - beginning	11,021,316	12,284,629	13,694,496	15,244,599
Total pension liability - ending (a)	<b>\$ 12,284,629</b>	<b>\$ 13,694,496</b>	<b>\$ 15,244,599</b>	<b>\$ 16,411,809</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 528,296	\$ 460,763	\$ 478,465	\$ 419,283
Contributions - employee	414,844	494,240	375,574	407,825
Net investment income	1,697,173	603,590	259,738	1,829,732
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)
Administrative expense	(8,482)	(7,442)	(8,396)	(9,970)
Other	89	(131)	(107)	(1,654)
<b>Net change in plan fiduciary net position</b>	<b>2,409,395</b>	<b>1,275,088</b>	<b>649,196</b>	<b>2,208,304</b>
Plan fiduciary net position - beginning	10,379,843	12,789,238	14,064,326	14,713,522
Plan fiduciary net position - ending (b)	<b>\$ 12,789,238</b>	<b>\$ 14,064,326</b>	<b>\$ 14,713,522</b>	<b>\$ 16,921,826</b>
PRTC's net pension (asset) liability - ending (a) - (b)	<b>\$ (504,609)</b>	<b>\$ (369,830)</b>	<b>\$ 531,077</b>	<b>\$ (510,017)</b>
Plan fiduciary net position as a percentage of the total pension liability	104.11%	102.70%	96.52%	96.52%
Covered payroll	\$ 6,582,460	\$ 7,265,941	\$ 7,785,947	\$ 8,627,885
PRTC's net pension (asset) liability as a percentage of covered payroll	7.67%	5.09%	-6.82%	5.91%

**Notes to Schedule:**

- (1) 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.
- (2) 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.

See Notes to Required Supplementary Information - Virginia Retirement System.

## VIRGINIA RAILWAY EXPRESS

### SCHEDULE OF THE VRE'S SHARE OF NET OPEB LIABILITY - GROUP LIFE INSURANCE PROGRAM

For the Year Ended June 30, 2018<sup>(3)</sup>

	Fiscal Year June 30, <u>2017</u>
<b>Total Group Life Insurance OPEB Liability</b>	
PRTC's Portion of the Net GLI OPEB Liability	0.04678%
PRTC's Proportionate Share of the Net GLI OPEB Liability	\$ 703,000
PRTC's Covered Payroll	\$ 8,627,885
PRTC's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.15%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

#### Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the VRE will present information for those years for which information is available.
- (2) 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.
- (3) The amounts presented have a measurement date of the previous fiscal year.

See Notes to Required Supplementary Information - Other Postemployment Benefits.

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF THE VRE'S CONTRIBUTIONS - OPEB -  
GROUP LIFE INSURANCE PROGRAM**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	\$ 20,291	\$ 20,469	\$ 25,277	\$ 25,929	\$ 34,313	\$ 34,887	\$ 38,509	\$ 41,266	\$ 44,865	\$ 46,150
Contributions in relation to the CRC	20,291	20,469	25,277	25,929	34,313	34,887	38,509	41,266	44,865	46,150
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 5,636,261	\$ 5,685,905	\$ 5,744,800	\$ 5,892,844	\$ 6,474,129	\$ 6,582,460	\$ 7,265,941	\$ 7,785,947	\$ 8,875,155	\$ 8,627,885
Contributions as a percentage of covered payroll	0.27%	0.27%	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.51%	0.53%

**Notes to Schedule:**

- (1) 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.

See Notes to Required Supplementary Information - Other Postemployment Benefits.

## VIRGINIA RAILWAY EXPRESS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – VIRGINIA RETIREMENT SYSTEM Year Ended June 30, 2018

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#### Note 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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

#### Note 2. Changes of Assumptions

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

##### Non-Hazardous Duty

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

#### Note 3. Contractually Required Contributions

The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

##### Non-Hazardous Duty

Mortality Rates:	15% of deaths are assumed to be service related.
Pre-retirement:	RP-2014 Employee Rates at age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.
Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
Post-disablement:	RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

## VIRGINIA RAILWAY EXPRESS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POSTEMPLOYMENT BENEFITS Year Ended June 30, 2018

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#### Note 1. Group Life Insurance Program

##### A. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System benefit provisions since the prior actuarial valuation.

##### B. Changes of Assumptions

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

#### Non-Largest Ten Locality Employers – General Employees

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

## Statistical Section



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## 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.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how VRE's financial performance has changed over time.	65 – 68
<b>Other Statistical Information</b> These schedules and service area map provide other information useful to certain readers of VRE's financial statements.	69 – 70
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to assist the reader understand the environment within which VRE's financial activities take place.	71 – 73

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF CHANGE IN NET POSITION**

**Last Ten Fiscal Years**

**(Unaudited)**

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Operating Revenues:</b>										
Passenger revenue	\$ 42,221,002	\$ 42,280,669	\$ 37,696,913	\$ 36,700,191	\$ 37,093,476	\$ 34,733,106	\$ 34,721,591	\$ 32,368,123	\$ 30,019,730	\$ 25,909,794
Equipment rentals and other	269,168	301,621	240,052	418,569	197,915	239,381	304,184	200,069	247,375	124,926
<b>Total operating revenues</b>	<b>42,490,170</b>	<b>42,582,290</b>	<b>37,936,965</b>	<b>37,118,760</b>	<b>37,291,391</b>	<b>34,972,487</b>	<b>35,025,775</b>	<b>32,568,192</b>	<b>30,267,105</b>	<b>26,034,720</b>
<b>Nonoperating Revenues:</b>										
<b>Subsidies:</b>										
Commonwealth of Virginia grants	17,145,270	18,265,581	16,572,077	14,401,957	19,330,105	14,967,197	12,711,602	12,806,509	13,153,781	13,482,816
Federal grants - with PRTC as grantee	15,362,802	15,937,225	13,917,534	13,688,723	15,931,876	18,559,490	17,181,121	16,157,284	14,525,795	12,784,123
Jurisdictional contributions	17,250,240	17,250,240	16,428,800	16,456,986	16,428,800	16,428,800	15,943,917	16,070,307	16,376,968	17,275,500
Regional transportation funding (NVTA)	766,586	461,889	542,671	-	-	-	-	-	-	-
<b>Capital Grants and Assistance:</b>										
Commonwealth of Virginia grants	13,010,326	3,033,657	9,826,429	14,694,277	-	-	-	-	-	-
Federal grants - with PRTC as grantee	9,559,056	15,204,474	22,125,460	17,764,759	5,420,552	1,269,732	9,997,070	40,136,130	15,437,312	14,648,460
Regional transportation funding (NVTA)	615,190	651,163	-	-	-	-	-	-	-	-
Federal grants - NVTC and other	-	-	-	-	-	-	-	3,308,513	402,355	53,738
Pass-through to Fairfax County	-	-	-	-	-	-	-	-	-	(4,456,818)
In-kind and other local contributions	12,842	162,839	851,659	1,079,885	2,637,809	328,031	46,924	406,331	680,631	1,903,284
<b>Interest income:</b>										
Operating funds	616,228	285,495	93,677	34,337	27,860	18,573	16,813	14,675	23,893	129,620
Insurance trust	132,037	98,560	69,444	-	-	-	-	-	65,164	241,003
Other restricted funds	797	402	197	59	196	772	1,161	384	586	36,232
Gain (loss) on sale of assets	(551,457)	3,500	-	(60,293)	1,500	(769,042)	(358,382)	(271,606)	(393,419)	-
<b>Total nonoperating revenues</b>	<b>73,919,917</b>	<b>71,355,025</b>	<b>80,427,948</b>	<b>78,060,690</b>	<b>59,778,698</b>	<b>50,803,553</b>	<b>55,540,226</b>	<b>88,628,527</b>	<b>60,273,066</b>	<b>56,097,958</b>
<b>Total revenues</b>	<b>116,410,087</b>	<b>113,937,315</b>	<b>118,364,913</b>	<b>115,179,450</b>	<b>97,070,089</b>	<b>85,776,040</b>	<b>90,566,001</b>	<b>121,196,719</b>	<b>90,540,171</b>	<b>82,132,678</b>
<b>Operating Expenses:</b>										
Contract operations and maintenance	26,917,081	25,873,933	24,082,615	22,782,752	23,151,332	21,751,488	21,093,606	21,405,930	20,291,361	18,694,757
Other operations and maintenance	17,492,047	14,461,209	13,662,606	14,334,954	14,891,502	12,785,223	14,594,826	12,949,155	12,055,009	12,575,004
Property leases and access fees	16,693,442	16,236,606	15,175,732	14,318,788	13,924,017	13,504,023	13,123,367	11,756,531	9,482,367	8,686,385
Insurance	3,766,321	3,970,753	4,046,198	3,964,673	3,991,969	4,022,072	3,491,620	4,049,906	3,864,366	3,866,438
Marketing and sales	2,529,388	2,532,214	2,393,332	2,267,729	2,012,321	1,872,343	2,211,354	1,502,434	1,259,048	1,477,554
General and administrative	11,651,412	10,904,945	10,514,343	7,968,298	7,793,040	6,784,379	7,111,871	5,964,956	5,642,360	5,492,566
Depreciation and amortization	18,201,071	17,737,170	16,953,565	15,391,195	14,706,458	14,465,445	13,373,129	12,218,203	11,337,406	10,445,041
<b>Total operating expenses</b>	<b>97,250,762</b>	<b>91,716,830</b>	<b>86,828,391</b>	<b>81,028,389</b>	<b>80,470,639</b>	<b>75,184,973</b>	<b>74,999,773</b>	<b>69,847,115</b>	<b>63,931,917</b>	<b>61,237,745</b>
<b>Nonoperating (Revenues) Expenses:</b>										
Interest and amortization	3,147,164	3,217,756	3,384,762	3,534,644	4,026,724	4,683,094	6,524,348	5,566,829	5,682,935	6,014,243
(Gain) loss on sale of assets	-	-	-	-	-	-	-	-	-	(4,218,641)
<b>Total nonoperating expenses, net</b>	<b>3,147,164</b>	<b>3,217,756</b>	<b>3,384,762</b>	<b>3,534,644</b>	<b>4,026,724</b>	<b>4,683,094</b>	<b>6,524,348</b>	<b>5,566,829</b>	<b>5,682,935</b>	<b>1,795,602</b>
<b>Special Items</b>	-	-	1,882,945	-	3,660,786	-	-	-	-	-
<b>Total expenses</b>	<b>100,397,926</b>	<b>94,934,586</b>	<b>92,096,098</b>	<b>84,563,033</b>	<b>88,158,149</b>	<b>79,868,067</b>	<b>81,524,121</b>	<b>75,413,944</b>	<b>69,614,852</b>	<b>63,033,347</b>
<b>Change in net assets</b>						<b>\$ 5,907,973</b>	<b>\$ 9,041,880</b>	<b>\$ 45,782,775</b>	<b>\$ 20,925,319</b>	<b>\$ 19,099,331</b>
<b>Change in net position</b>	<b>\$ 16,012,161</b>	<b>\$ 19,002,729</b>	<b>\$ 26,268,815</b>	<b>\$ 30,616,417</b>	<b>\$ 8,911,940</b>					

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.

This table reports financial information based on the accrual basis of accounting. VRE implemented GASB Statement No. 63, the new reporting standard, in fiscal year 2014. The standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'

Source: VRE's Audited Financial Statements.

## VIRGINIA RAILWAY EXPRESS

### SCHEDULE OF COMPONENTS OF NET POSITION

#### Last Ten Fiscal Years

#### (Unaudited)

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net investment in capital assets	\$ 289,271,966	\$ 279,920,481	\$ 274,136,653	\$ 254,085,092	\$ 220,069,396	\$ 220,007,440	\$ 220,396,390	\$ 213,710,235	\$ 165,407,433	\$ 144,566,529
Restricted for liability insurance plan	10,536,336	10,470,506	10,439,990	10,487,532	10,454,171	10,294,874	10,156,492	10,052,968	9,511,797	8,229,082
Restricted for debt service	1,996,544	-	-	-	6,731,166	6,563,328	6,408,466	6,259,239	5,980,313	5,850,112
Restricted grants or contributions	1,094,246	779,223	779,223	-	-	140,270	951,342	600,250	34,619	194,193
Unrestricted assets	72,747,104	68,885,778	55,697,393	50,211,820	46,973,386	35,845,639	28,056,773	24,277,019	20,676,168	10,905,605
<b>Total net assets</b>						\$ 272,851,551	\$ 265,969,463	\$ 254,899,711	\$ 201,610,330	\$ 169,745,521
<b>Total net position</b>	<b>\$ 375,646,196</b>	<b>\$ 360,055,988</b>	<b>\$ 341,053,259</b>	<b>\$ 314,784,444</b>	<b>\$ 284,228,119</b>					

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

Fiscal year 2012 balance restated to comply with GASB 63.

This table reports financial information based on the accrual basis of accounting. VRE implemented GASB Statement No. 63, the new reporting standard, in fiscal year 2014. The standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'

Source: VRE's Audited Financial Statements.

**VIRGINIA RAILWAY EXPRESS**

**SCHEDULE OF OUTSTANDING DEBT  
Last Ten Fiscal Years  
(Unaudited)**

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue Bonds:										
\$37,625,000 Commuter Rail Revenue Bond, Series 1993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,065,000	\$ 9,875,000
\$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
Bonds Payable:										
\$46,640,000 Virginia Resources Authority (VRA) Bond 2018	<b>46,640,000</b>	-	-	-	-	-	-	-	-	-
\$5,972,388 Unamortized Premium on VRA Bond 2018	<b>5,872,848</b>	-	-	-	-	-	-	-	-	-
Capital Leases:										
\$25,100,000 Capitalized Lease Obligation	<b>11,451,643</b>	12,810,417	14,108,906	15,349,786	16,535,611	17,668,825	18,751,762	19,786,652	20,775,627	21,720,726
\$74,425 Capitalized Lease Obligation	<b>17,559</b>	34,287	50,048	64,331	-	-	-	-	-	-
Notes Payable:										
\$900,000 SunTrust Bank	-	-	-	-	-	-	320,000	380,000	440,000	500,000
\$63,844,842 FRA Notes	-	53,440,159	55,628,942	57,709,856	59,698,580	61,595,765	63,409,659	63,305,611	63,749,851	56,122,937
Outstanding as of June 30	<b>\$ 63,982,050</b>	<b>\$ 66,284,863</b>	<b>\$ 69,787,896</b>	<b>\$ 73,123,973</b>	<b>\$ 82,789,191</b>	<b>\$ 92,039,590</b>	<b>\$ 101,166,421</b>	<b>\$ 107,767,263</b>	<b>\$ 114,455,478</b>	<b>\$ 112,768,663</b>
Debt per Capita:										
Outstanding as of June 30	<b>\$ 63,982,050</b>	<b>\$ 66,284,863</b>	<b>\$ 69,787,896</b>	<b>\$ 73,123,973</b>	<b>\$ 82,789,191</b>	<b>\$ 92,039,590</b>	<b>\$ 101,166,421</b>	<b>\$ 107,767,263</b>	<b>\$ 114,455,478</b>	<b>\$ 112,768,663</b>
Total Participating Jurisdictional Population	N/A	N/A	N/A	2,306,790	2,291,535	2,272,215	2,238,627	2,189,988	2,159,228	2,116,826
Debt per Capita	N/A	N/A	N/A	\$ 31.70	\$ 36.13	\$ 40.51	\$ 45.19	\$ 49.21	\$ 53.01	\$ 53.27
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	<b>\$ 63,982,050</b>	<b>\$ 66,284,863</b>	<b>\$ 69,787,896</b>	<b>\$ 73,123,973</b>	<b>\$ 82,789,191</b>	<b>\$ 92,039,590</b>	<b>\$ 101,166,421</b>	<b>\$ 107,767,263</b>	<b>\$ 114,455,478</b>	<b>\$ 112,768,663</b>
Total Personal Income	N/A	N/A	N/A	146,270,466,309	140,364,871,240	137,666,132,000	135,296,802,000	126,548,575,000	125,509,757,000	125,018,523,000
Total Outstanding Debt as a Percentage of Personal Income	N/A	N/A	N/A	0.05%	0.06%	0.07%	0.07%	0.09%	0.09%	0.09%

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

- (1) Fairfax County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 4.1, page 287
- (2) Prince William County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 247
- (3) City of Manassas fiscal year 2017 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 130
- (5) Stafford County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-15; page 154
- (6) City of Fredericksburg fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 175
- (7) Spotsylvania County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 151
- (8) City of Alexandria fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 206
- (9) Arlington County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table K, page 247

# VIRGINIA RAILWAY EXPRESS

## SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS

### Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fairfax County	\$ 6,099,300	\$ 5,160,910	\$ 4,847,284	\$ 4,852,953	\$ 4,747,684	\$ 4,511,265	\$ 4,876,961	\$ 4,906,693	\$ 4,995,535	\$ 5,507,805
City of Fredericksburg	417,278	483,524	439,366	581,244	427,728	339,064	420,566	405,980	508,503	482,764
City of Manassas	684,586	749,372	766,491	686,944	757,804	642,662	817,993	871,611	883,443	938,897
City of Manassas Park	474,718	511,777	576,699	401,762	574,709	441,702	566,504	544,763	537,496	567,082
Prince William County	5,363,372	5,968,406	5,309,674	5,485,333	5,748,203	4,761,324	5,859,007	6,384,660	6,173,028	6,511,839
Stafford County	2,344,514	2,647,222	2,855,607	2,689,391	2,529,281	1,892,640	2,505,805	2,634,002	2,971,727	2,974,507
Spotsylvania County	1,520,191	1,382,750	1,303,888	1,401,382	1,313,600	3,510,352	577,020	-	-	-
City of Alexandria	140,589	140,589	133,894	133,894	133,894	133,894	129,944	130,974	124,737	118,797
Arlington County	205,692	205,692	195,897	195,897	195,897	195,897	190,117	191,624	182,499	173,809
<b>Total contributions</b>	<b>\$ 17,250,240</b>	<b>\$ 17,250,240</b>	<b>\$ 16,428,800</b>	<b>\$ 16,428,800</b>	<b>\$ 16,428,800</b>	<b>\$ 16,428,800</b>	<b>\$ 15,943,917</b>	<b>\$ 16,070,307</b>	<b>\$ 16,376,968</b>	<b>\$ 17,275,500</b>

Source: VRE's Department of Finance

## VIRGINIA RAILWAY EXPRESS

### SCHEDULE OF MISCELLANEOUS STATISTICS

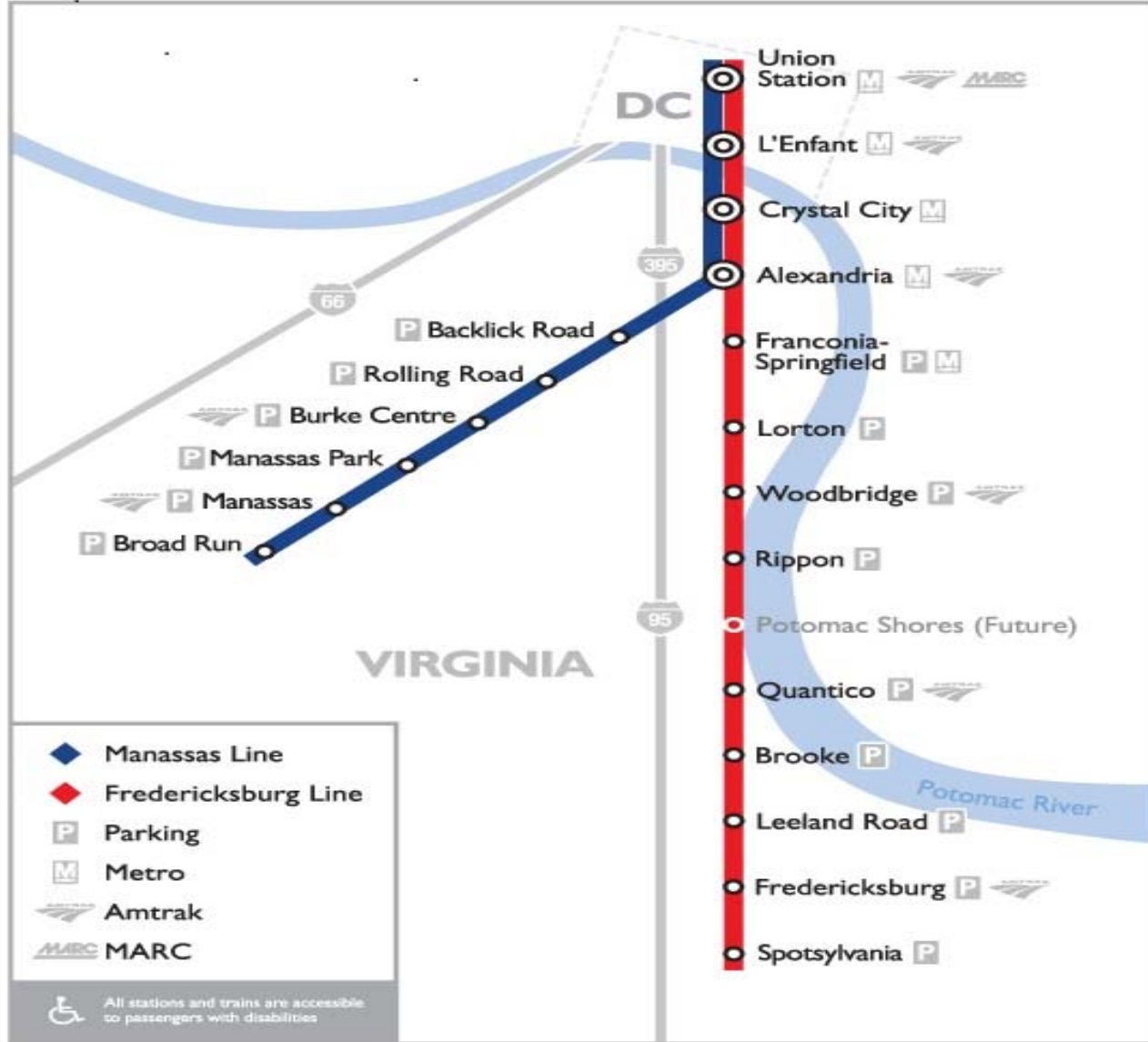
#### Last Ten Fiscal Years

#### (Unaudited)

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Rolling Stock (Owned or Leased)										
Locomotives	20	20	20	20	20	20	22	25	20	21
Railcars	100	98	100	93	91	91	91	101	95	91
<b>Total rolling stock</b>	<b>120</b>	<b>118</b>	<b>120</b>	<b>113</b>	<b>111</b>	<b>111</b>	<b>113</b>	<b>126</b>	<b>115</b>	<b>112</b>
Stations	19	19	19	18	18	18	18	18	18	18
Parking Spaces	10,796	10,796	10,743	9,243	9,030	9,030	8,824	8,824	8,691	8,505
Employees	50	49	45	39	37	37	37	37	37	37
Ridership and Fare Revenue Data (1):										
Total Ridership	4,705,529	4,761,035	4,441,858	4,618,169	4,547,911	4,643,898	4,771,987	4,517,366	4,033,230	3,857,646
Average Daily Ridership	18,974	18,968	17,767	18,547	18,119	18,878	19,088	18,377	16,673	15,754
Average Fare Per Trip	\$ 8.97	\$ 8.88	\$ 8.49	\$ 7.95	\$ 8.16	\$ 7.48	\$ 7.28	\$ 7.17	\$ 7.44	\$ 6.66

(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	2017			2008		
	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
U.S. Federal Government (1) (2) (3) (4) (5)	1	74,920 - 75,668+	N/A	1	49,087 - 49,586+	N/A
Fairfax County Public Schools (1)	2	24,688	N/A	2	22,994	N/A
Fairfax County Government (1)	3	12,438	N/A	3	12,263	N/A
Inova Health System (1) (5)	4	8,000 - 11,000+	N/A	6	7,000 - 10,000+	N/A
Arlington County Government & Schools (2)	5	10,000	N/A	5	10,264	N/A
George Mason University (1)	6	7,000 - 10,000	N/A	-	-	-
Booz-Allen Hamilton (1) (2)	7	5,600 - 8,599	N/A	4	8,203 - 11,203	N/A
Federal Home Loan Mortgage (1)	8	4,000 - 6,999	N/A	9	4,000 - 6,999	N/A
General Dynamics (1)	9	4,000 - 6,999	N/A	-	-	-
Accenture (2)	10	4,600	N/A	-	-	-
Northrop Grumman (1)	-	-	-	7	7,000 - 10,000	N/A
Lockheed Martin (1) (2)	-	-	-	8	5,533 - 8,532	N/A
Science Applications International Corp. (1)	-	-	-	10	4,000 - 6,999	N/A

Sources:

(1) through (9) extracted and combined from the following sources:

- (1) County of Fairfax fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 288
- (2) County of Arlington fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table L, page 248
- (3) County of Prince William fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 248
- (4) County of Stafford fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-17, page 156
- (5) City of Alexandria fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 211
- (6) City of Spotsylvania fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-14, page 152
- (7) City of Manassas fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 141, 2017 and 2008 data was not available.
- (8) City of Manassas Park fiscal year 2015 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 131, 2017 and 2008 data was not available.
- (9) City of Fredericksburg fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 176



**VIRGINIA RAILWAY EXPRESS**

**DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS**

**Fiscal Years 2009 to 2018**

(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)
<b>2018 (all categories)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>2017</b>									
Population	N/A	455,267	N/A	N/A	144,612	28,297	133,330	156,100	222,800
Personal Income (in thousands)	N/A	\$28,317,142	N/A	N/A	\$6,657,002	\$1,313,009	\$6,186,606	N/A	\$19,896,040
Per Capita Personal Income	N/A	\$52,917	N/A	N/A	\$46,034	\$46,401	\$46,401	N/A	\$89,300
Unemployment Rate	N/A	3.5%	3.4%	N/A	3.6%	4.6%	3.8%	2.9%	2.6%
<b>2016</b>									
Population	1,138,652	449,864	41,483	N/A	142,380	28,118	132,010	150,500	220,400
Personal Income (in thousands)	85,311,224	\$26,935,423	N/A	N/A	\$6,425,740	\$1,256,818	\$6,125,357	N/A	\$18,601,760
Per Capita Personal Income	74,923	\$51,600	N/A	N/A	\$45,131	\$44,698	\$46,401	N/A	\$84,400
Unemployment Rate	3.2%	3.7%	3.4%	N/A	4.0%	4.8%	4.2%	2.9%	2.9%
<b>2015</b>									
Population	1,142,234	441,627	41,764	15,700	142,299	28,213	130,603	147,650	216,700
Personal Income (in thousands)	\$85,675,546	\$25,621,125	\$2,101,356	\$700,000	\$6,296,162	\$1,201,676	\$6,060,071	N/A	\$18,614,530
Per Capita Personal Income	\$75,007	\$50,315	\$50,315	\$44,586	\$44,246	\$42,593	\$46,401	\$82,683	\$85,900
Unemployment Rate	3.1%	4.4%	4.1%	4.4%	5.2%	6.2%	4.8%	3.5%	3.4%
<b>2014</b>									
Population	1,137,538	433,621	42,081	15,174	138,423	28,132	129,318	144,000	215,000
Personal Income (in thousands)	\$81,620,627	\$24,377,908	\$2,042,822	\$694,362	\$6,091,966	\$1,215,809	\$5,766,877	N/A	\$18,554,500
Per Capita Personal Income	\$71,752	\$48,545	\$48,545	\$45,760	\$44,010	\$43,218	\$44,595	\$77,142	\$86,300
Unemployment Rate	3.5%	4.8%	5.0%	4.5%	5.2%	5.9%	5.5%	4.6%	3.5%
<b>2013</b>									
Population	1,130,924	425,681	41,725	14,838	135,311	27,307	127,779	142,000	221,045
Personal Income (in thousands)	\$80,982,075	\$23,468,904	\$1,973,426	\$419,100	\$5,900,913	\$1,116,665	\$5,570,826	N/A	\$18,234,223
Per Capita Personal Income	\$71,607	\$47,296	\$47,296	\$28,245	\$43,610	\$40,893	\$43,597	\$81,078	\$82,491
Unemployment Rate	3.7%	5.2%	5.4%	5.0%	5.1%	8.2%	6.3%	4.7%	4.0%
<b>2012</b>									
Population	1,118,602	418,107	40,742	15,332	134,352	26,024	126,194	140,800	216,004
Personal Income (in thousands)	\$77,012,392	\$23,464,178	\$1,965,150	\$419,100	\$5,744,220	\$1,064,199	\$5,562,025	N/A	\$17,273,192
Per Capita Personal Income	\$68,847	\$48,234	\$48,234	\$27,335	\$42,755	\$40,893	\$44,075	\$80,952	\$79,967
Unemployment Rate	4.4%	5.3%	5.6%	4.7%	4.9%	8.8%	6.5%	4.6%	3.5%

**VIRGINIA RAILWAY EXPRESS**

**DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS**

**Fiscal Years 2009 to 2018**

(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)
<b>2011</b>									
Population	1,100,692	410,454	39,358	14,387	128,961	25,691	124,835	140,100	210,280
Personal Income (in thousands)	\$71,145,429	\$22,755,668	\$1,888,948	\$455,635	\$5,405,658	\$1,050,582	\$5,375,789	N/A	\$15,707,916
Per Capita Personal Income	\$64,637	\$47,994	\$47,994	\$31,670	\$41,917	\$40,893	\$43,063	\$78,383	\$74,700
Unemployment Rate	4.7%	5.7%	6.1%	5.2%	5.2%	10.3%	7.0%	4.8%	3.9%
<b>2010</b>									
Population	1,081,726	402,002	37,821	12,042	128,961	24,286	122,397	139,993	212,200
Personal Income (in thousands)	\$72,577,324	\$21,375,534	\$1,761,021	\$391,776	\$5,265,160	\$954,391	\$5,074,874	N/A	\$15,217,499
Per Capita Personal Income	\$67,094	\$46,562	\$46,562	\$32,534	\$40,828	\$39,298	\$40,462	\$76,362	\$71,713
Unemployment Rate	5.1%	6.1%	7.0%	5.8%	5.7%	9.6%	7.0%	4.8%	4.3%
<b>2009</b>									
Population	1,074,227	392,900	36,514	11,410	122,800	23,353	120,977	N/A	209,300
Personal Income (in thousands)	\$74,380,758	\$20,209,890	\$1,679,863	\$382,695	\$4,915,316	\$892,131	\$4,942,717	N/A	\$14,841,044
Per Capita Personal Income	\$69,241	\$46,006	\$46,006	\$33,540	\$40,027	\$38,202	\$40,857	\$70,846	\$70,908
Unemployment Rate	4.9%	5.5%	7.3%	6.5%	5.4%	9.2%	5.7%	2.8%	4.7%

Sources:

- (1) Fairfax County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 4.1, page 287
- (2) Prince William County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 247
- (3) City of Manassas fiscal year 2017 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 130
- (5) Stafford County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-15; page 154
- (6) City of Fredericksburg fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 175
- (7) Spotsylvania County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 151
- (8) City of Alexandria fiscal year 201 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 206
- (9) Arlington County fiscal year 2017 Comprehensive Annual Financial Report, Statistical Section, Table K, page 247

N/A = Not Available

# Compliance Section



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**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, 2018, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements, and have issued our report thereon dated October 30, 2018.

**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  
October 30, 2018



A Transportation Partnership