



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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.

VIRGINIA RAILWAY EXPRESS





Government Finance Officers Association

Certificate of
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Presented to

Virginia Railway Express

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2020 AND 2019

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Prepared by:

Department of Finance

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Introductory Section



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VIRGINIA RAILWAY EXPRESS

November 3, 2020

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 the fiscal year ended June 30, 2020, for the Virginia Railway Express (VRE). VRE is a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC), collectively referred to as “the Commissions.” NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

The report consists of management’s representations concerning the finances of VRE. Consequently, management assumes responsibility for the completeness and reliability of all 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) immediately follows 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 daily trains and 1,800 average daily ridership. During fiscal year 2020, VRE operated 32 daily trains in revenue service and carried an average daily ridership of 12,922 over 252 service days. Ridership in the fourth quarter of fiscal year 2020 was negatively affected by the COVID-19 Novel Coronavirus pandemic.

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, plus the Virginia Secretary of Transportation or their designee. 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 2020, 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.

- **Facilities:** In fiscal year 2020, VRE purchased real property adjacent to the Crossroads Yard facility in Spotsylvania County, as part of the ongoing expansion of that facility. VRE completed work on the Slaters Lane Track Crossover project, which has provided operational flexibility to VRE and other passenger and freight operations. Work was also completed on upgrades to the lighting at several VRE stations. Development efforts continued towards the Midday Storage Facility, a vital multi-year project to construct a replacement storage facility for VRE trains in Washington, DC. Work also continued towards the design and engineering for expansion of several VRE stations and station platforms to allow for future system growth.
- **Systems:** In fiscal year 2020, installation of Positive Train Control (PTC) devices on VRE's locomotives and cab cars was completed, as well as back office implementation. The system is fully in service and compliant with the mandates created by the Rail Safety Improvement Act of 2008. Substantial upgrade work on VRE's Scheidt & Bachmann fare collection system was done in fiscal year 2020, with completion expected in fiscal year 2021. VRE is also in the process of developing its next generation mobile ticketing system heading into fiscal year 2021. VRE completed development of a SharePoint web-based collaborative platform system during fiscal year 2020. VRE also continues to move forward on implementation of automated systems to count passengers on the trains. This system will provide real-time information to customers and staff and allow for more efficient utilization of VRE's capacity.

VRE continues to advance the engineering, environmental clearances, and design work for both the Manassas Line Capacity Expansion project (funded primarily through the I-66 Outside the Beltway concessionaire payment) and the Fredericksburg Line Capacity Expansion project (funded primarily through the Commonwealth's SMART SCALE program and various state rail programs). Both expansion efforts have also received critical regional funding from the Northern Virginia Transportation Authority (NVTA). These expansion efforts will provide new railcars for longer trains, additional parking facilities at key stations, longer platforms to speed passenger boarding and alighting, storage and maintenance facility expansions, and real-time traveler information. Taken together, these projects will increase VRE's capacity to carry riders while requiring only modest additional operating expense.

In 2018, the Virginia legislature created the 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.

\$15 million annually is dedicated to the C-ROC Fund from fuel tax revenues generated in the NVTC and PRTC regions. This 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.

VRE received \$15 million in C-ROC funds in fiscal year 2020, including \$3.75 million in receivables from fiscal year 2019. VRE ended fiscal year 2020 with \$3.75 million in C-ROC receivables. To date, VRE has programmed \$45 million of current and future C-ROC funds (covering fiscal years 2019, 2020, and 2021) towards its L'Enfant and Crystal City station improvement projects.

Long-Term Financial Planning

In order to prioritize investment needs and identify future growth opportunities, the VRE System Plan 2040 was 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. 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 through 2040. During fiscal year 2016, a companion Financial Plan was completed that identified the costs, revenues, and funding gaps associated with System Plan 2040. This Financial Plan was critical to making the case to the legislature for the creation of the C-ROC.

In December 2019, Governor Ralph Northam announced the Transforming Rail in Virginia program, which includes a landmark agreement between the Commonwealth and CSX Transportation (CSXT) for the acquisition of railroad right-of-way in the RF&P Corridor. This ambitious program of capital improvements, which includes the construction of a new passenger-dedicated two-track Long Bridge across the Potomac River, will occur in phases over the next decade and beyond. The investments will improve the capacity and reliability of both commuter (VRE) and intercity passenger (Amtrak) services while maintaining freight interoperability in the corridor.

The program of projects will address many of the needs identified in VRE's System Plan 2040, and VRE is currently in discussions with the Commonwealth on an agreement to contribute C-ROC funds in order to advance key early priorities of the program. The agreement between the Commonwealth and CSXT also will result in changes to operations in the corridor, with passenger and freight traffic being largely segregated. This in turn has changed VRE's plans for station expansions on the Fredericksburg Line, and VRE staff are currently updating the scopes, schedules, and budgets for those station projects.

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 has remained strong due to investments in new equipment and regular maintenance of existing equipment, a focus on reliability and on-time performance, and strong customer service, as well as growth in the overall economy of the Washington region. The Transforming Rail in Virginia program recently undertaken by the Commonwealth will address many of the major investment needs identified in VRE's System Plan 2040 – most notably, providing additional passenger capacity across the Potomac River – and will position VRE for continued long-term growth.

However, the near-term financial outlook is uncertain given the COVID-19 pandemic. The pandemic has been challenging for individuals and organizations of all types, and transportation providers are no exception. As of October 2020, daily ridership on VRE remains down over 90 percent from normal levels. Some riders are choosing to drive rather than ride the train, but many others simply do not have to travel and are able to work away from the office (sometimes called 'telework'). Until the federal government and other employers begin to bring significant numbers of employees back to their offices, which may not happen until a vaccine is widely available, VRE ridership is expected to remain low.

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, 2019. 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,



Rich Dalton
Chief Executive Officer



Mark Schofield
Chief Financial Officer



Alexander E. Buchanan
Comptroller

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. Gary Skinner, Spotsylvania County
Vice-Chairman	Hon. Elizabeth Bennett-Parker, City of Alexandria
Secretary	Hon. Jeanine Lawson, Prince William County
Treasurer	Hon. James Walkinshaw, Fairfax County

Members

Hon. Walter Alcorn, Fairfax County
Hon. Andrea Bailey, Prince William County
Hon. Preston Banks, City of Manassas Park
Hon. Meg Bohmke, Stafford County
Hon. Katie Cristol, Arlington County
Hon. Margaret Franklin, Prince William County
Hon. Matthew Kelly, City of Fredericksburg
Jennifer Mitchell, VDRPT
Hon. Cindy Shelton, Stafford County
Hon. Ralph Smith, City of Manassas
Hon. Dan Storck, Fairfax County

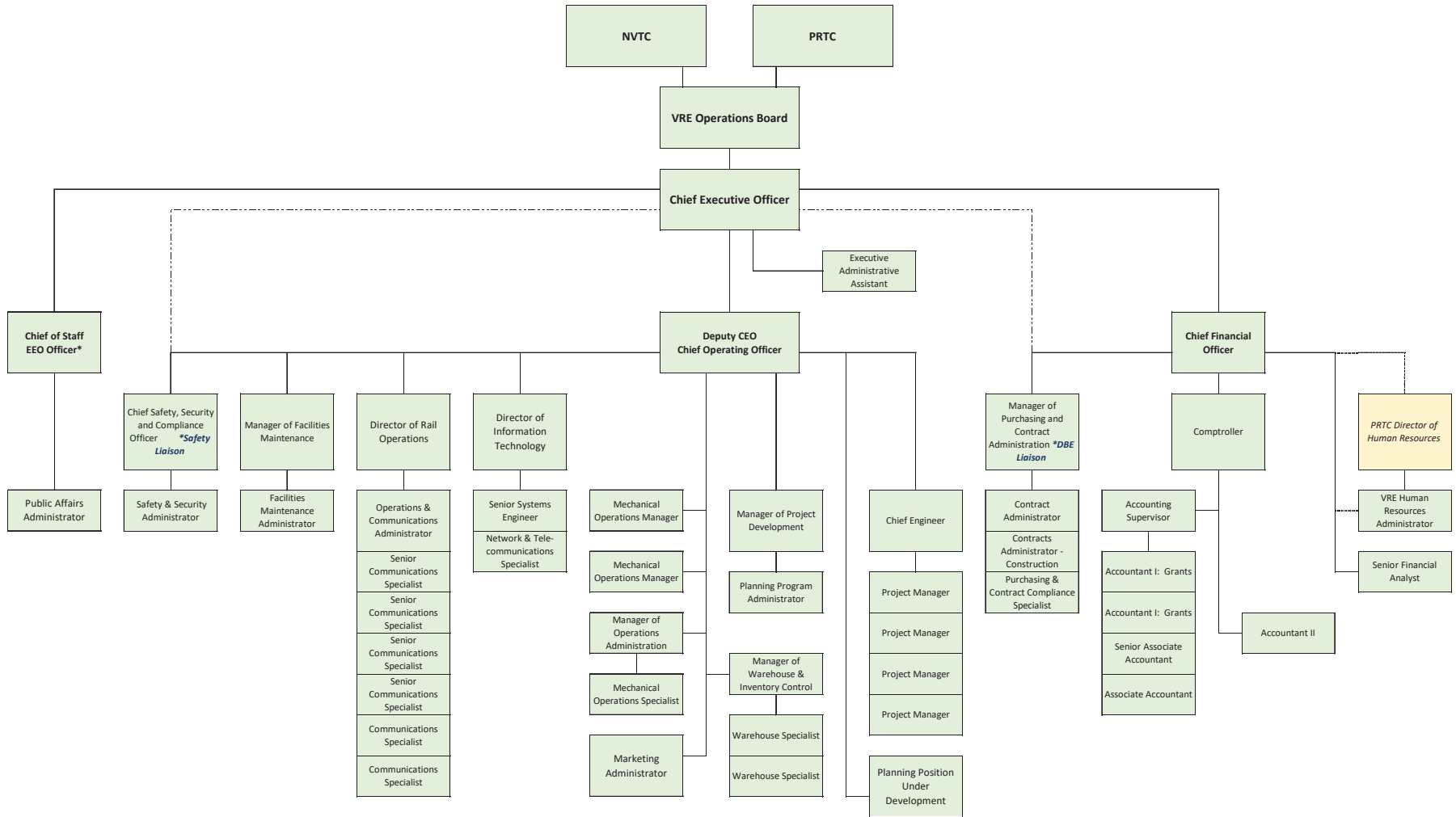
Alternates

Hon. Canek Aguirre, City of Alexandria
Hon. Victor Angry, Prince William County
Hon. Pete Candland, Prince William County
Hon. Hector Cendejas, City of Manassas Park
Hon. Deborah Frazier, Spotsylvania County
Hon. Libby Garvey, Arlington County
Hon. Jason Graham, City of Fredericksburg
Hon. Jeff McKay, Fairfax County
Michael McLaughlin, VDRPT
Hon. Pamela Sebesky, City of Manassas
Hon. Gary Snellings, Stafford County
Hon. Ann Wheeler, Prince William County

Management

Chief Executive 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
As of June 30, 2020



* 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
 VRE HR Administrator reports to PRTC Director of HR, who then reports to CFO in matters related to VRE human resources

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, 2020 and 2019, 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, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 9-18 and 60-65, 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 November 3, 2020 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 the effectiveness of VRE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VRE's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
November 3, 2020



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, 2020. 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 17.3 percent compared to the prior year, from \$42,304,835 to \$34,969,771. Ridership decreased 26.9 percent from 4,477,266 to 3,273,884, reflecting the effects of the COVID-19 Novel Coronavirus (COVID) pandemic during the fourth quarter of fiscal year 2020. Average daily ridership was 12,992 in fiscal year 2020 compared to 18,053 in fiscal year 2019. Average daily ridership in fiscal year 2020 was 18,329 through the end of February 2020, the last month prior to the negative ridership effects of COVID.
- Operating expenses increased by 1.1 percent from \$77,681,532 to \$78,525,443, as the result of increased State of Good Repair expenditures, regular contractual increases for operations, maintenance and access fees, and increased insurance costs, offset by decreases in most other operating expenses.
- Non-operating revenue increased by 5.4 percent from \$67,401,206 to \$71,011,568 primarily as the result of additional COVID-related operating aid from the Commonwealth of Virginia and accrued operating support related to the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- Capital grants and assistance increased by 4.2 percent from \$7,263,131 to \$7,564,734 as a result of increased capital project spending. 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 \$43,555,673, an increase from the previous year of 23.1 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 \$14,612,806 from \$394,202,648 to \$408,815,454, or 3.7 percent, primarily as the result of grants and contributions for capital improvements, the effect of the Commuter Rail Operating and Capital (C-ROC) Fund, and the additional operating support from the Commonwealth of Virginia and the CARES Act due to COVID-19. At the end of the fiscal year, unrestricted net position was \$114,277,648, an increase of \$16,306,972.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, decreased by 2.0 percent, as the combined result of low capital expenditures during the fiscal year, the write-off to expense of two discontinued CIP projects 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 23-59 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, 2020, 2019, and 2018 is shown below. The earliest year presented was restated for implementation of GASB Statement No. 75.

Condensed Statements of Net Position

	2020	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current and other assets	\$ 136,952,127	\$ 123,251,966	\$ 95,835,889
Capital assets, net	335,019,850	341,997,029	352,798,880
Deferred outflows of resources	1,181,041	840,915	884,315
Total assets and deferred outflows of resources	473,153,018	466,089,910	449,519,084
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Current portion of long-term debt	3,906,946	3,730,497	3,716,789
Other current liabilities	7,126,123	10,778,148	8,642,749
Noncurrent liabilities	53,129,940	57,164,548	61,216,736
Deferred inflows of resources	174,555	214,069	296,614
Total liabilities and deferred inflows of resources	64,337,564	71,887,262	73,872,888
NET POSITION:			
Net investment in capital assets	279,674,828	282,554,207	289,271,966
Restricted	14,862,978	13,677,765	13,627,126
Unrestricted	114,277,648	97,970,676	72,747,104
Total net position, as restated	\$ 408,815,454	\$ 394,202,648	\$ 375,646,196

Current Year

Net position increased by approximately \$14.6 million, or 3.7 percent during the current fiscal year, due mainly to capital contributions used to fund system improvements and the Commuter Rail Operating and Capital (C-ROC) Fund.

The largest portion of VRE's net position, \$279.7 million or 68.4 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment, software, and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

Restricted net position increased approximately \$1.2 million or 8.7 percent, primarily related to the repayment of \$1.37 million of credit risk premium related to the extinguished FRA loan. The majority of VRE's restricted net position, \$10.3 million, represents resources that are restricted for the liability insurance plan.

Capital assets, net of accumulated depreciation and amortization, decreased approximately \$7.0 million or 2.0 percent as the result of low capital expenditures during the fiscal year, the write-off to expense of two discontinued CIP projects and the recognition of annual depreciation and amortization.

Current liabilities decreased approximately \$3.5 million or 24.0 percent as the result of decreases in Accounts Payable, Accrued Expenses and Payables to Commissions.

Noncurrent liabilities and deferred inflows of resources decreased approximately \$4.0 million or 7.1 percent because of scheduled note and capital lease repayments during the year.

Prior Year

Net position increased by approximately \$18.6 million, or 4.9 percent during the current fiscal year, due mainly to capital contributions used to fund system improvements and the new Commuter Rail Operating and Capital (C-ROC) Fund.

The largest portion of VRE's net position, \$282.6 million or 71.7 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 \$0.05 million or 0.4 percent. 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, decreased approximately \$10.8 million or 3.1 percent as the result of low capital expenditures during the fiscal year and the recognition of annual depreciation and amortization.

Current liabilities increased approximately \$2.1 million or 17.4 percent as the result of increases in Accounts Payable and Payables to Commissions, as well as other minor line items.

Noncurrent liabilities and deferred inflows of resources decreased approximately \$4.1 million or 6.7 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.

	2020	2019	2018
Operating revenues:			
Passenger revenue	\$ 34,701,955	\$ 41,990,599	\$ 42,221,002
Equipment rentals and other	267,816	314,236	269,168
Total operating revenues	34,969,771	42,304,835	42,490,170
Nonoperating revenues:			
Subsidies:			
Commonwealth of Virginia	18,712,734	17,447,509	17,145,270
Federal – with PRTC as grantee	15,271,669	15,229,460	15,362,802
Federal – CARES Act	2,688,095	-	-
Jurisdictional contributions	17,767,748	17,767,748	17,250,240
Commuter Rail Operating and Capital Fund	15,000,000	15,000,000	-
Regional transportation funding (NVT A)	-	194,506	766,586
Interest income	1,571,322	1,761,983	749,062
Gain (loss) on disposal of assets	-	-	(551,457)
Total nonoperating revenues, net	71,011,568	67,401,206	50,722,503
Total revenues	105,981,339	109,706,041	93,212,673
Operating expenses:			
Contract operations and maintenance	28,076,445	26,946,284	26,917,081
Other operations and maintenance	15,446,821	16,579,038	17,492,047
Property leases and access fees	17,425,916	16,698,897	16,693,442
Insurance	4,370,863	3,945,668	3,766,321
Marketing and sales	2,189,698	2,574,583	2,529,388
General and administrative	11,015,700	10,937,062	11,651,412
Total operating expenses	78,525,443	77,681,532	79,049,691
Other expenses:			
Depreciation and amortization	19,690,320	18,542,805	18,201,071
Interest, financing costs and other	2,089,883	2,188,383	3,147,164
Total other expenses	21,780,203	20,731,188	21,348,235
Total expenses	100,305,646	98,412,720	100,397,926
Surplus (Deficit) before capital contributions and extraordinary item	5,675,693	11,293,321	(7,185,253)
Capital grants and assistance:			
Commonwealth of Virginia grants	2,110,561	1,417,527	13,010,326
Federal grants – with PRTC as grantee	3,696,057	3,541,398	9,559,056
Regional transportation funding (NVT A)	1,758,116	2,304,206	615,190
In-kind and other local contributions	-	-	12,842
Total capital grants and assistance	7,564,734	7,263,131	23,197,414
Extraordinary or Special Item	1,372,379	-	-
Change in net position	14,612,806	18,556,452	16,012,161
Net position - beginning of year, as restated	394,202,648	375,646,196	359,634,035
Net position - end of year	\$ 408,815,454	\$ 394,202,648	\$ 375,646,196

The earliest year presented was restated for implementation of GASB Statement No. 75.

Revenues

Current Year

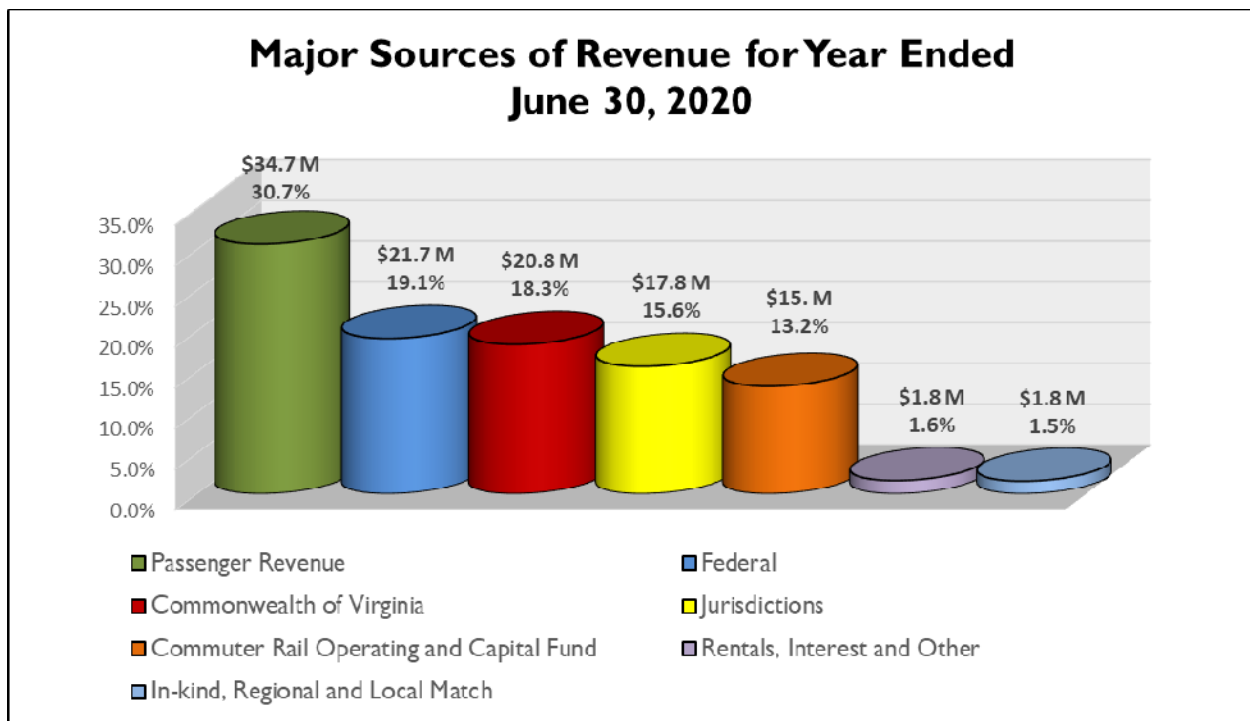
Total revenues for the current fiscal year decreased approximately \$3.7 million or 3.4 percent. Operating revenues totaled approximately \$35.0 million, a decrease of 17.3 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs were unchanged from fiscal year 2019. State, federal and regional subsidies increased by \$3.8 million, primarily as the result of additional aid from the Commonwealth of Virginia and an accrual of CARES Act funding, both related to the COVID-19 pandemic. Fiscal year 2020 is the second year of the Commuter Rail Operating and Capital (C-ROC) Fund, with \$15.0 million due to VRE each year.

Passenger revenue decreased approximately \$7.3 million or 17.4 percent, reflecting the effects of the COVID-19 pandemic in fourth quarter of fiscal year 2020. Total ridership decreased by 26.9 percent as the result of the same factor. Average daily ridership was 12,992 in fiscal year 2020 compared to 18,053 in fiscal year 2019.

	June 30,		
	2020	2019	2018
Ridership	3,273,884	4,477,266	4,705,529
% Increase (Decrease)	(26.90%)	(4.90%)	(1.20%)

Capital grants and assistance increased approximately \$0.3 million or 4.15 percent; this increase is attributed to increases in capital project spending in fiscal year 2020. 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 revenue for the year ended June 30, 2020:



Prior Year

Total revenues for the previous fiscal year increased approximately \$16.5 million or 17.7 percent. Operating revenues totaled approximately \$42.3 million, a decrease of 0.4 percent from the prior year. Jurisdictional subsidies and contributions to project operating costs increased by \$0.5 million. State, federal and regional subsidies decreased by \$0.4 million, primarily as the result of a decrease in regionally funded operating expenditures. Fiscal year 2019 was the first year of the Commuter Rail Operating and Capital (C-ROC) Fund, which totals \$15.0 million that VRE will receive each year going forward.

Passenger revenue decreased approximately \$0.2 million or 0.5 percent, reflecting the effects of the 2018-19 Federal Government shutdown and service disruptions related to implementation of Positive Train Control, as well as other service-related challenges. Ridership decreased by 4.9 percent as the result of the same factors. Average daily ridership was 18,053 in fiscal year 2019 compared to 18,974 in fiscal year 2018.

Capital grants and assistance decreased approximately \$15.9 million or 68.7 percent; this decrease is attributed to not purchasing grant funded new railcars nor incurring major construction costs in fiscal year 2019. In fiscal year 2018 VRE received delivery of nine grant funded railcars and completed construction of the Lorton Station main platform extension project. VRE continues to be in a period with many current projects in early stages of development and not yet having initiated major construction.

Expenses

Current Year

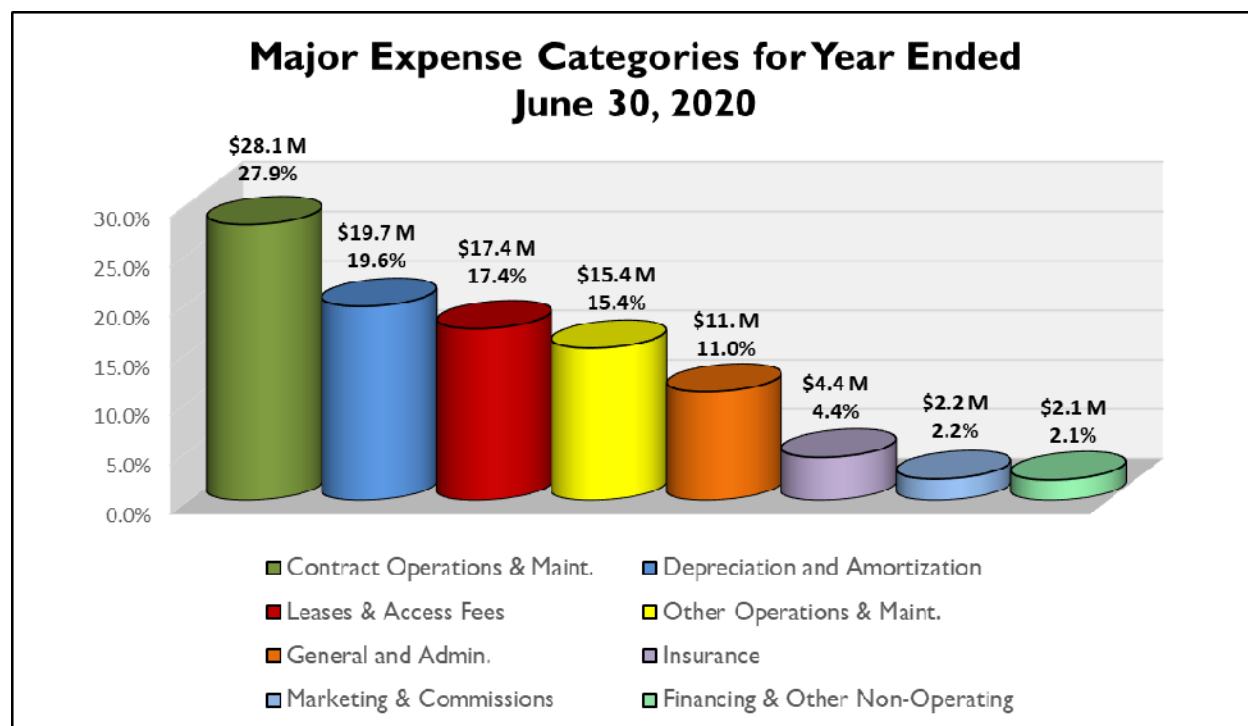
Total operating and other expenses, including depreciation and amortization, increased by approximately \$1.9 million or 1.9 percent. Operating expenses increased by approximately \$0.8 million or 1.1 percent. Total operating expenses were approximately \$78.5 million compared to \$77.7 million for the prior fiscal year.

Contract operations and maintenance increased by approximately \$1.1 million or 4.2 percent, reflecting annual contractual increases, increased incentives earned, and additional COVID-19 related task order work, offset by reduced Amtrak Step-Up ticket costs. Insurance costs increased by \$0.4 million or 10.8 percent due to changes in the global insurance market for commuter railroads. Property lease and access fee costs increased by \$0.7 million or 4.4 percent due to annual contractual increases.

Other operations and maintenance costs decreased by \$1.1 million or 6.8 percent due primarily to a decrease in diesel fuel costs and various other operating costs due to reductions of service during the COVID-19 pandemic. General and administrative costs remained effectively flat, increasing by less than \$0.1 million or 0.7 percent, primarily due to decreased consulting and professional services costs offset by the write off to expense of two old discontinued CIP projects.

Depreciation and amortization increased by approximately \$1.1 million or 6.2 percent and net interest and financing costs decreased by approximately \$0.1 million or 4.5 percent.

The following chart shows the major expense categories for the year ended June 30, 2020:



Prior Year

Total operating and other expenses, including depreciation and amortization, decreased by approximately \$2.0 million or 2.0 percent in the previous year. Operating expenses decreased by approximately \$1.4 million or 1.7 percent. Total operating expenses were approximately \$77.7 million compared to \$79.0 million for the prior fiscal year.

Contract operations and maintenance increased by approximately \$29,000 or 0.1 percent, reflecting annual contractual increases offset by reductions in contracted maintenance task orders, reduced Amtrak Step-Up ticket costs and reduced earned incentive payments. Property lease and access fee costs were essentially flat as the result of regular contractual increases offset by elimination of two daily non-revenue trains due to completion of the L'Enfant North storage track, and a generally stable level of service. Other operations and maintenance costs decreased by \$0.9 million or 5.2 percent due primarily to a decrease in asset management maintenance expenses. General and administrative costs decreased by \$0.7 million or 6.1 percent due to decreased consulting and professional services costs. Depreciation and amortization increased by approximately \$0.3 million or 1.9 percent and net interest and financing costs decreased by approximately \$1.0 million or 30.5 percent, as a result of the Virginia Resources Authority (VRA) debt refinance in fiscal year 2019.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2020 totals approximately \$335 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.

	2020	2019	2018
Rolling stock	\$ 285,279,918	\$ 285,279,918	\$ 285,279,918
Vehicles	145,560	145,560	117,043
Facilities	112,809,451	109,851,787	105,935,704
Track and signal improvements	99,528,959	83,434,528	83,434,528
Equipment and software	12,126,666	12,126,666	12,126,666
Construction in progress	24,003,731	30,741,671	27,297,997
Equity in property of others	5,787,287	5,787,287	5,787,287
Furniture, equipment and software	6,389,452	6,053,916	5,711,211
	546,071,024	533,421,333	525,690,354
Less accumulated depreciation and amortization	(211,051,174)	(191,424,304)	(172,891,474)
Total capital assets, net	\$ 335,019,850	\$ 341,997,029	\$ 352,798,880

Current Year

During fiscal year 2020, capital assets decreased approximately \$7.0 million or 2.0 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$19.4 million were transferred from construction in progress to their respective capital accounts and an additional \$14,986 was charged directly to the capital accounts. No capital assets were sold in fiscal year 2020. Two older construction in progress projects related to Broad Run station and yard, both in the preliminary design phase, were determined to be redundant due to newer development plans for this location, and were written off to expense, totaling \$0.7 million.

The major completed projects during the fiscal year were Positive Train Control (\$13.5 million), the Slaters Lane Track Crossover Improvements (\$2.6 million), the Crossroads Maintenance Storage Facility Land Acquisition (\$2.5 million), Lighting Upgrades at various stations (\$0.4 million) and SharePoint Development and Implementation (\$0.4 million).

Due to the computer and software-based nature of Positive Train Control, this asset is being depreciated over five years, unlike most Track and Signal projects, which are typically depreciated over thirty years.

The major additions to construction in progress during the fiscal year were costs related to the Crossroads Maintenance Storage Facility Land Acquisition (\$2.4 million), completion of Positive Train Control (\$1.9 million), the Scheidt & Bachmann Fare Collection System EMV Compliance Upgrade (\$1.2 million), development of the Passenger Counter System (\$1.2 million), completion of the Slaters Lane Track Crossover Improvements (\$1.1 million), ongoing development of the Midday Storage Yard project (\$0.7 million), Alexandria Station Improvements (\$0.6 million), and the Crossroads Lifecycle and Overhaul and Upgrade Facility (\$0.5 million).

Additional information on VRE's capital assets and contractual commitments can be found in Notes 3 and 10 to the financial statements.

Prior Year

During fiscal year 2019, capital assets decreased approximately \$10.8 million or 3.1 percent, as the combined result of new project construction and the recognition of annual depreciation and amortization. Completed projects totaling approximately \$4.2 million were transferred from construction in progress to their respective capital accounts and an additional \$63,115 was charged directly to the capital accounts. No capital assets were sold in fiscal year 2019.

The major completed projects during the fiscal year were the L'Enfant North Storage (Yard) Track & Wayside Power (\$3.7 million), the VRE Headquarters Suite 201 Office Renovation (\$0.3 million) and the Automated Parking Counter (APC) system (\$0.2 million).

The major additions to construction in progress during the fiscal year were costs related to the Slater's Lane track improvements (\$1.4 million); ongoing work toward implementation of Positive Train Control (PTC) (\$1.4 million); work supporting fare collection EMV compliance (\$0.5 million), and ongoing development work for the Midday Storage Yard project (\$0.5 million).

Additional information on VRE's capital assets and contractual commitments can be found in Notes 3 and 10 to the financial statements.

Debt Administration

At June 30, 2020, VRE had total debt outstanding of \$50,661,916.

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 from the proceeds of 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 multifunction copiers were secured by the related equipment and ended in fiscal year 2020.

	2020		2019		2018
Bond payable	\$ 42,120,000	\$	44,360,000	\$	46,640,000
Capital leases	8,541,916		10,032,413		11,469,202
Total	\$ 50,661,916	\$	54,392,413	\$	58,109,202

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 long-term demand for VRE's service. The constraining factors to VRE growth in the near-term are the current COVID-19 pandemic and its effects, as well as station parking, availability of seats, storage capacity, and the availability of subsidy funds.

The local subsidy for fiscal year 2021 increased by 3.0 percent to \$18,300,780. Fares were held constant; the previous general fare increase was 3.0 percent in fiscal year 2020. In fiscal year 2019 VRE began to receive funding from the Commonwealth of Virginia Commuter Rail Operating and Capital (C-ROC) Fund as a result of Virginia HB1539, which will continue in fiscal year 2021. Additional sources of funding will be available in fiscal year 2021 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.

Basic Financial Statements



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VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 97,142,781	\$ 75,278,280
Accounts receivable:		
Federal Due from PRTC	9,006,275	13,690,788
Federal CARES Act	2,688,095	-
Commonwealth of Virginia grants	5,415,225	8,033,524
Commonwealth Rail Operating and Capital (C-ROC) Fund	3,750,000	3,750,000
Trade receivables, net of allowance for doubtful accounts	594,027	3,136,008
Other receivables	602,064	2,344,239
Inventory	2,751,678	2,846,838
Prepaid expenses and other	139,004	174,015
Restricted cash, cash equivalents and investments	14,862,978	13,677,765
	136,952,127	122,931,457
Noncurrent Assets:		
Pension asset	-	320,509
Capital assets:		
Rolling stock	285,279,918	285,279,918
Vehicles	145,560	145,560
Facilities	112,809,451	109,851,787
Track and signal improvements	99,528,959	83,434,528
Equipment and software	12,126,666	12,126,666
Construction in progress	24,003,731	30,741,671
Equity in property of others	5,787,287	5,787,287
Furniture, equipment and software	6,389,452	6,053,916
	546,071,024	533,421,333
Less accumulated depreciation and amortization	(211,051,174)	(191,424,304)
Total capital assets, net	335,019,850	341,997,029
	335,019,850	342,317,538
Total noncurrent assets	335,019,850	342,317,538
	471,971,977	465,248,995
Total assets	471,971,977	465,248,995
Deferred Outflows of Resources:		
Loss on refunding	393,423	424,280
Pension plan	680,256	340,985
Other postemployment benefits	107,362	75,650
Total deferred outflows of resources	1,181,041	840,915
	\$ 473,153,018	\$ 466,089,910
Total assets and deferred outflows of resources	\$ 473,153,018	\$ 466,089,910

VIRGINIA RAILWAY EXPRESS

**STATEMENTS OF NET POSITION (Continued)
June 30, 2020 and 2019**

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

	2020	2019
Current Liabilities:		
Accounts payable	\$ 2,229,822	\$ 3,086,899
Payable to commissions	1,383,673	2,030,009
Compensated absences	107,523	27,783
Accrued expenses	1,005,217	3,154,443
Accrued interest	565,271	602,003
Unearned revenue	1,818,911	1,877,011
Contract retainage	15,706	-
Current portion of bonds payable	2,350,000	2,240,000
Current portion of capital lease obligations	1,556,946	1,490,497
Total current liabilities	11,033,069	14,508,645
Noncurrent Liabilities:		
Pension liability	212,336	-
Other postemployment benefits	457,084	431,852
Bonds payable	44,846,530	47,594,689
Capital lease obligations	6,984,969	8,541,916
Compensated absences	629,021	596,091
Total noncurrent liabilities	53,129,940	57,164,548
Total liabilities	64,163,009	71,673,193
Deferred Inflows of Resources:		
Pension plan	141,890	174,477
Other postemployment benefits	32,665	39,592
Total deferred inflows of resources	174,555	214,069
Net Position:		
Net investment in capital assets	279,674,828	282,554,207
Restricted for liability insurance plan	10,320,199	10,527,621
Restricted for debt service	2,016,642	2,029,382
Restricted grants or contributions	2,526,137	1,120,762
Unrestricted assets	114,277,648	97,970,676
Total net position	408,815,454	394,202,648
Total liabilities, deferred inflows of resources and net position	\$ 473,153,018	\$ 466,089,910

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues:		
Passenger revenue	\$ 34,701,955	\$ 41,990,599
Equipment rentals and other	267,816	314,236
Total operating revenues	34,969,771	42,304,835
Operating Expenses:		
Contract operations and maintenance	28,076,445	26,946,284
Other operations and maintenance	15,446,821	16,579,038
Property leases and access fees	17,425,916	16,698,897
Insurance	4,370,863	3,945,668
Marketing and sales	2,189,698	2,574,583
General and administrative	11,015,700	10,937,062
Total operating expenses	78,525,443	77,681,532
Operating loss before depreciation and amortization	(43,555,672)	(35,376,697)
Depreciation and Amortization	(19,690,320)	(18,542,805)
Operating loss	(63,245,992)	(53,919,502)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	18,712,734	17,447,509
Federal grants – with PRTC as grantee	15,271,669	15,229,460
Federal CARES Act	2,688,095	-
Jurisdictional contributions	17,767,748	17,767,748
Commuter Rail Operating and Capital (C-ROC) Fund	15,000,000	15,000,000
Regional transportation funding (NVTA)	-	194,506
Interest income:		
Operating funds	1,009,626	1,360,241
Insurance trust	218,621	221,184
Commonwealth Rail Operating and Capital (C-ROC) Fund	294,176	117,075
Other restricted funds	48,899	63,483
Interest, amortization and other nonoperating expenses, net	(2,089,883)	(2,188,383)
Total nonoperating revenues, net	68,921,685	65,212,823
Capital Grants and Assistance:		
Commonwealth of Virginia grants	2,110,561	1,417,527
Federal grants – with PRTC as grantee	3,696,057	3,541,398
Regional transportation funding (NVTA)	1,758,116	2,304,206
Total capital grants and assistance	7,564,734	7,263,131
Extraordinary or Special Items	1,372,379	-
Change in net position	14,612,806	18,556,452
Net Position, beginning of year	394,202,648	375,646,196
Net Position, ending	\$ 408,815,454	\$ 394,202,648

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Receipts from customers	\$ 37,686,271	\$ 41,793,057
Payments to suppliers	(71,274,746)	(70,609,174)
Payments to employees	(8,297,670)	(6,996,624)
Net cash used in operating activities	(41,886,145)	(35,812,741)
Cash Flows from Noncapital Financing Activities:		
Governmental subsidies	59,460,186	52,694,170
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(14,912,680)	(5,498,100)
Capital grants and assistance	23,669,068	17,235,557
Principal paid on capital lease obligations	(1,490,498)	(1,436,789)
Principal paid on bonds	(2,240,000)	(2,280,000)
Interest paid on capital lease obligation	(443,518)	(510,516)
Interest paid on bonds and notes	(2,050,400)	(2,010,993)
Extraordinary or special events	1,372,379	-
Net cash provided by capital and related financing activities	3,904,351	5,499,159
Cash Flows from Investing Activities:		
Interest received on investments	1,571,322	1,761,983
Increase in cash and cash equivalents	23,049,714	24,142,571
Cash and Cash Equivalents, beginning	88,956,045	64,813,474
Cash and Cash Equivalents, ending	\$ 112,005,759	\$ 88,956,045
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	\$ (63,245,992)	\$ (53,919,502)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	19,690,320	18,542,805
Pension benefit (expense)	142,704	(104,719)
Other postemployment expense	(13,822)	(7,470)
Write-off of construction in progress to expense	677,504	-
(Increase) decrease in:		
Accounts receivable	2,541,981	(448,350)
Other receivables	232,620	(238,061)
Inventory	95,160	442,709
Prepaid expenses and other	35,011	(29,236)
Deferred outflows of resources – pension contributions	18,281	31,513
Deferred outflows of resources – other postemployment benefit contributions	415	(1,448)
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,002,227)	(255,615)
Unearned revenue	(58,100)	174,633
Net cash used in operating activities	\$ (41,886,145)	\$ (35,812,741)
Schedule of Noncash Capital Activities:		
Capital assets acquired through accounts payable	\$ 886,430	\$ 1,926,271
Capital assets acquired through accrued liabilities	284,571	728,471

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The system is not currently configured for fare 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

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 \$14,862,978 and \$13,677,765 at June 30, 2020 and 2019, 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, funds from the refund of the credit risk premium related to the retired RRIF loan 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 \$173,000 and \$210,000 at June 30, 2020 and 2019, 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

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	5-30 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, 2020 and 2019.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

Deferred outflows/inflows of resources: In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. VRE has eight items that qualify for reporting in this category. The first item relates to the deferred loss on refinancing. The remaining seven 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 six items that qualify for reporting in this category. See Notes 5 and 6 for details regarding these items.

Pensions: The Virginia Retirement System (VRS) Political Subdivision Retirement Plan (the VRE's retirement plan) is a multi-employer, agent plan. 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.

Net position flow assumption: Sometimes the VRE will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

Subsequent events: VRE has evaluated subsequent events through November 3, 2020, 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

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, 2020 and 2019, the book balance of VRE's deposits with banks was \$6,813,744 and \$3,875,117, 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

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, 2020 and 2019, VRE had investments of \$92,911,834 and \$72,579,677, 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, 2020 and 2019, VRE had \$10,263,540 and \$10,471,870, respectively, invested in the Insurance Trust. In fiscal years 2020 and 2019, earnings on the Insurance Trust in the amount of \$218,621 and \$221,184, 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, 2020 and 2019, VRE had \$2,016,642 and \$2,029,382, respectively, invested in the VRA Debt Service Reserve Fund.

As of June 30, 2020 and 2019, the carrying values and maturity of VRE's investments were as follows:

Investment Type	2020	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 92,911,834	\$ 92,911,834
Insurance trust fund - pooled funds	10,263,540	10,263,540
VRS debt service reserve fund	2,016,642	2,016,642
Total investments	\$ 105,192,016	\$ 105,192,016

Investment Type	2019	
	Fair Value	Maturities Less than 1 Year
LGIP	\$ 72,579,677	\$ 72,579,677
Insurance trust fund - pooled funds	10,471,870	10,471,870
VRS debt service reserve fund	2,029,382	2,029,382
Total investments	\$ 85,080,929	\$ 85,080,929

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 \$2,016,642 as of June 30, 2020, 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, 2020 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 30,741,671	\$ 13,375,659	\$ (677,504)	\$ (19,436,095)	\$ 24,003,731
Capital assets being depreciated or amortized:					
Rolling stock	285,279,918	-	-	-	285,279,918
Vehicles	145,560	-	-	-	145,560
Facilities	109,851,787	-	-	2,957,664	112,809,451
Track and signal improvements	83,434,528	-	-	16,094,431	99,528,959
Equipment and software	12,126,666	-	-	-	12,126,666
Equity in property of others	5,787,287	-	-	-	5,787,287
Furniture, equipment and software	6,053,916	14,986	(63,450)	384,000	6,389,452
Total capital assets being depreciated or amortized	502,679,662	14,986	(63,450)	19,436,095	522,067,293
Less accumulated depreciation or amortization for:					
Rolling stock	93,536,207	11,600,882	-	-	105,137,089
Vehicles	73,350	26,259	-	-	99,609
Facilities	44,770,009	3,329,747	-	-	48,099,756
Track and signal improvements	32,194,268	4,186,538	-	-	36,380,806
Equipment and software	11,917,784	202,883	-	-	12,120,667
Equity in property of others	3,968,506	164,593	-	-	4,133,099
Furniture, equipment and software	4,964,180	179,418	(63,450)	-	5,080,148
Total accumulated depreciation or amortization	191,424,304	19,690,320	(63,450)	-	211,051,174
Total capital assets being depreciated or amortized, net	311,255,358	(19,675,334)	-	19,436,095	311,016,119
Total capital assets	\$ 341,997,029	\$ (6,299,675)	\$ (677,504)	\$ -	\$ 335,019,850

The chart above reflects the completion of the Positive Train Control project at a value of \$13.5 million, completion of the Slaters Lane Track Crossover Improvements at \$2.6 million, purchase of the Crossroads Maintenance Storage Facility Land at a value of \$2.5 million, lighting upgrades at various stations at a value of \$0.4 million and completion of the SharePoint Development and Implementation project at a value of \$0.4 million.

Due to the computer and software-based nature of Positive Train Control, this asset is being depreciated over five years, unlike most Track and Signal assets, which are typically depreciated over thirty years.

The chart also reflects a reduction of approximately \$678,000 in construction in progress reclassified to operating expense. This was related to two older construction in progress projects related to Broad Run station and yard, both in the preliminary design phase, that were determined to be redundant due to newer development plans for this location, and were expensed.

The capital lease for two multifunction copier capital leases ended during fiscal year 2020. The units were subsequently purchased by VRE for under \$5,000 per unit, our capitalization threshold and have been removed from capital assets.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 27,297,997	\$ 7,677,839	\$ -	\$ (4,234,165)	\$ 30,741,671
Capital assets being depreciated or amortized:					
Rolling stock	285,279,918	-	-	-	285,279,918
Vehicles	117,043	28,517	-	-	145,560
Facilities	105,935,704	8,195	-	3,907,888	109,851,787
Track and signal improvements	83,434,528	-	-	-	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	5,711,211	26,403	(9,975)	326,277	6,053,916
Total capital assets being depreciated or amortized	498,392,357	63,115	(9,975)	4,234,165	502,679,662
Less accumulated depreciation or amortization for:					
Rolling stock	81,935,325	11,600,882	-	-	93,536,207
Vehicles	47,090	26,260	-	-	73,350
Facilities	41,525,449	3,244,560	-	-	44,770,009
Track and signal improvements	29,377,559	2,816,709	-	-	32,194,268
Equipment and software	11,379,622	538,162	-	-	11,917,784
Equity in property of others	3,803,913	164,593	-	-	3,968,506
Furniture, equipment and software	4,822,516	151,639	(9,975)	-	4,964,180
Total accumulated depreciation or amortization	172,891,474	18,542,805	(9,975)	-	191,424,304
Total capital assets being depreciated or amortized, net	325,500,883	(18,479,690)	-	4,234,165	311,255,358
Total capital assets	\$ 352,798,880	\$ (10,801,851)	\$ -	\$ -	\$ 341,997,029

Note 4. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2020:

	Beginning Balance	Increases	Deletions	Ending Balance	Due Within One Year
Capital leases	\$ 10,032,413	\$ -	\$ (1,490,498)	\$ 8,541,915	\$ 1,556,946
Bond payable	44,360,000	-	(2,240,000)	42,120,000	2,350,000
Unamortized premium	5,474,689	-	(398,159)	5,076,530	-
	59,867,102	-	(4,128,657)	55,738,445	3,906,946
Compensated absences	623,874	390,705	(278,035)	736,544	107,523
	\$ 60,490,976	\$ 390,705	\$ (4,406,692)	\$ 56,474,989	\$ 4,014,469

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt Obligations (Continued)

Federal arbitrage regulations apply to the Gallery IV capitalized lease.

Capitalized Lease – Gallery IV (11 cars)

\$25,100,000 capitalized lease obligation; \$965,679 due semi-annually, including interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of \$12,946,565.

\$ 8,541,916

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

Years Ending June 30,	Amount
2021	\$ 1,931,357
2022	1,931,357
2023	1,931,357
2024	1,931,357
2025	1,931,357
Total minimum lease payments	<u>9,656,785</u>
Less amount representing interest	<u>1,114,869</u>
Present value of lease payments	<u><u>\$ 8,541,916</u></u>

Capitalized Lease – Copiers

\$63,450 capitalized lease obligations; \$1,329 due monthly, interest at 9.39%, maturing in 2020; collateralized with two multifunction copiers with a carrying value of \$0. Leases retired in fiscal year 2020, and the copiers purchased at under \$5,000 per unit.

\$ -

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 3.13% to 5.13% through October 1, 2032. The carrying value of the railcars was \$60,782,688 at June 30, 2020. \$ 42,120,000

Mandatory debt service on Bond payable requirements as of June 30, 2020 are as follows:

Years Ending June 30,	Principal	Interest	Total Required
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
2024	2,745,000	1,548,572	4,293,572
2025	2,885,000	1,404,303	4,289,303
2026-2030	16,875,000	4,583,259	21,458,259
2031-2033	12,185,000	687,522	12,872,522
Subtotal	42,120,000	13,664,644	55,784,644
Unamortized premium	5,076,530	-	5,076,530
Total	\$ 47,196,530	\$ 13,664,644	\$ 60,861,174

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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

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

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013 and they have not taken a refund.</p> <p><i>Hybrid Opt-In Election</i> VRS non-hazardous duty-covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</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>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</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>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><i>Hybrid Opt-In Election</i> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</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 have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none">• Political subdivision employees.*• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p><i>*Non-Eligible Members</i> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none">• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Members contribute 5% of their compensation each month to their member contribution account through a pretax 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>Retirement Contributions Same as Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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>Service Credit Same as Plan 1.</p>	<p>Service Credit <i>Defined Benefit Component:</i> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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><i>Defined Contribution Component:</i> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. 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 that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <i>Defined Benefit Component:</i> 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 service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><i>Defined Contribution Component:</i> 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 that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none">• After two years, a member is 50% vested and may withdraw 50% of employer contributions.• After three years, a member is 75% vested and may withdraw 75% of employer contributions.• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required, except as governed by law.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <i>Defined Benefit Component:</i> See definition under Plan 1.</p> <p><i>Defined Contribution Component:</i> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier <i>VRS:</i> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier <i>VRS:</i> 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 service credit earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <i>Defined Benefit Component:</i> <i>VRS:</i> The retirement multiplier for the defined benefit component is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Political subdivision hazardous duty employees: Not applicable.</p> <p><i>Defined Contribution Component:</i> Not applicable.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age <i>VRS:</i> Age 65.</p> <p>Political subdivision hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age <i>VRS:</i> Normal Social Security retirement age.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <i>Defined Benefit Component:</i> <i>VRS:</i> Same as Plan 2.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility <i>VRS:</i> Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p> <p>Political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.</p>	<p>Earliest Unreduced Retirement Eligibility <i>VRS:</i> Normal Social Security retirement age and have at least 5 years (60 months) of service credit or when their age plus service credit equals 90.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <i>Defined Benefit Component:</i> <i>VRS:</i> Normal Social Security retirement age and have at least 5 years (60 months) of service credit or when their age plus service credit equals 90.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility <i>VRS:</i> Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p> <p>Political subdivision hazardous duty employees: Age 50 with at least five years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility <i>VRS:</i> Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <i>Defined Benefit Component:</i> <i>VRS:</i> Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><i>Eligibility:</i> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, 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 service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><i>Exceptions to COLA Effective Dates:</i> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability. 	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%.</p> <p><i>Eligibility:</i> Same as Plan 1.</p> <p><i>Exceptions to COLA Effective Dates:</i> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><i>Defined Benefit Component:</i> Same as Plan 2.</p> <p><i>Defined Contribution Component:</i> Not applicable.</p> <p><i>Eligibility:</i> Same as Plan 1 and Plan 2.</p> <p><i>Exceptions to COLA Effective Dates:</i> Same as Plan 1 and Plan 2.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued) <u>Exceptions to COLA Effective Dates (continued):</u></p> <ul style="list-style-type: none"> • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit 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>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <i>Defined Benefit Component:</i> Same as Plan 1, with the following exception: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <i>Defined Contribution Component:</i> Not applicable.</p>

B. Employees Covered by Benefit Terms

As of the June 30, 2018 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>28</u>
Inactive members:	
Vested	21
Non-vested	24
Active elsewhere in VRS	<u>9</u>
Total inactive members	<u>54</u>
Active members	<u>95</u>
Total covered employees	<u><u>177</u></u>

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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. 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, 2020 was 4.93% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from VRE were \$187,561 and \$205,842 for the years ended June 30, 2020 and 2019, respectively.

D. Net Pension Asset/Liability

VRE's net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

E. Actuarial Assumptions

The total pension liability for VRE's retirement plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal Actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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
- 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, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

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:

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

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

G. Discount Rate

The discount rate used to measure the total pension asset was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2018, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

H. Changes in the Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
Balances at June 30, 2018	\$ 17,978,233	\$ 18,530,278	\$ (552,045)
Changes for the Year:			
Service cost	747,243	-	747,243
Interest	1,233,409	-	1,233,409
Assumption changes	631,239	-	631,239
Difference between expected and actual experience	312,560	-	312,560
Contributions – employer	-	354,543	(354,543)
Contributions – employee	-	414,063	(414,063)
Net investment income	-	1,249,744	(1,249,744)
Benefit payments, including refunds of employee contributions	(716,216)	(716,216)	-
Administrative expense	-	(11,937)	11,937
Other changes	-	(791)	791
Net changes	2,208,235	1,289,406	918,829
Balances at June 30, 2019	<u>\$ 20,186,468</u>	<u>\$ 19,819,684</u>	<u>\$ 366,784</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 pension liability of \$212,336 on its Statements of Net Position based on a percentage of contributions to the plan for fiscal year 2019. VRE's percentage of total contributions to the plan was 57.89 percent. This percentage was used to allocate a portion of the net pension asset to VRE.

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

The following presents VRE's portion of the net pension asset/liability, using the discount rate of 6.75 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 (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	Current		
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
VRE's net pension liability (asset)	\$ 3,069,540	\$ 366,784	\$ (1,775,482)

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

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

For the year ended June 30, 2020, VRE recognized pension expense of (\$160,987). 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	\$ 211,658	\$ -
Change in assumption	281,037	(43,705)
Net difference between projected and actual earnings on pension plan investments	-	(98,185)
Employer contributions subsequent to the measurement date	187,561	-
Total	\$ 680,256	\$ (141,890)

The \$187,561 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2021	\$ 135,437
2022	37,077
2023	131,008
2024	47,283
	\$ 350,805

K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR is publicly available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 6. Other Postemployment Benefits – Group Life Insurance Program

A. Plan Description

The VRS Group Life Insurance Program (GLI) is another 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:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p><i>Eligible Employees</i></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 accumulated retirement member contributions and accrued interest.</p>
<p><i>Benefit Amounts</i></p> <p>The benefits payable under the GLI have several components.</p> <ul style="list-style-type: none">• Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• Accidental Death Benefit – The accidental death benefit is double the natural death benefit.• Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
<p><i>Reduction in Benefit Amounts</i></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><i>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</i></p> <p>For covered members with at least 30 years of service credit, there is a minimum benefit payable under GLI. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.</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, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018. 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 \$28,334 and \$28,749 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, VRE reported a liability of \$457,084 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2019 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was \$28,634 or 0.04626% as compared to \$28,120 or 0.04670% at June 30, 2018.

For the year ended June 30, 2020, VRE recognized GLI OPEB expense of \$14,927. 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, 2020, 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
Differences between expected and actual experience	\$ 30,399	\$ (5,929)
Net difference between projected and actual earnings on GLI OPEB program investments	-	(9,389)
Change in assumptions	28,858	(13,783)
Changes in proportion	19,771	(3,564)
Employer contributions subsequent to the measurement date	28,334	-
Total	\$ 107,362	\$ (32,665)

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 \$457,084 on its Statements of Net Position based on a percentage of contributions to the plan for fiscal year 2019. VRE's percentage of total contributions to the plan was 60.7 percent. This percentage was used to allocate a portion of the net GLI OPEB liability to VRE.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 \$28,334 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,	Amount
2021	\$ 6,700
2022	6,700
2023	10,677
2024	11,154
2025	8,737
Thereafter	2,395
Total	\$ 46,363

D. Actuarial Assumptions

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

Inflation	2.5%
Salary increases, including inflation:	
Locality – general employees	3.5%-5.35%
Investment rate of return	6.75%, 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 assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. 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
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

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 the measurement date of June 30, 2019, NOL amounts for the GLI are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB liability	\$ 3,390,238
Plan fiduciary net position	<u>1,762,972</u>
GLI net OPEB liability	<u><u>\$ 1,627,266</u></u>

Plan fiduciary net position as a percentage of the total GLI OPEB liability	52.00%
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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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
		* Expected arithmetic nominal return	7.63%

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

G. Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by employers for the VRS GLI OPEB Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined rate. From July 1, 2019, on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB 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 GLI OPEB liability.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
VRE	\$ 600,482	\$ 457,084	\$ 340,792

I. Group Life Insurance Program Fiduciary Net Position

Detailed information about the GLI's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/Pdf/Publications/2019-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, 2020 and 2019, annual track usage fees totaled approximately \$10,527,000 and \$9,875,000, respectively, and facility and other identified costs totaled approximately \$584,000 and \$639,000, respectively. The increase in track usage fees primarily reflects normal annual increases to the base fees.

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 and ended June 30, 2020. A new agreement became effective on July 1, 2020. For the years ended June 30, 2020 and 2019, costs for track access and equipment storage totaled approximately \$6,714,000 and \$6,597,000, respectively, and midday maintenance, utility and other services totaled approximately \$4,345,000 and \$4,515,000, respectively. Cost adjustments will be made in fiscal year 2021 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, 2020 and 2019 totaled approximately \$23,654,000 and \$22,512,000, respectively. Costs are based on an annual budget prepared in advance. Costs in fiscal year 2020 reflect contractual increases and added services, including a focus on asset maintenance programs. Costs for fiscal year 2021 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 8. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2020 and 2019, these payments included \$7,767,519 and \$7,643,259 of salary-related costs and \$30,395 and \$6,100 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 \$110,696 and \$119,881 to PRTC during 2020 and 2019, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to approximately \$1,666 and \$656 in 2020 and 2019, respectively. Amounts payable to NVTC and PRTC were \$11,268 and \$1,372,405, respectively, at June 30, 2020 and \$14,781 and \$2,015,228, respectively, at June 30, 2019.

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 \$139,000 at June 30, 2020 and \$133,000 at June 30, 2019.

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, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance, July 1	\$ 10,471,870	\$ 10,481,904
Contribution to reserves	3,900,136	3,700,000
Insurance premiums paid	(4,256,144)	(3,714,256)
Claims mitigation and losses incurred	(55,493)	(189,035)
Investment income	218,621	221,184
Actuarial and administrative charges	(15,450)	(27,927)
	<u>\$ 10,263,540</u>	<u>\$ 10,471,870</u>
Ending balance, June 30		

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

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 10. Contingencies and Contractual Commitments

At June 30, 2020, 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, 2020:

Stations and Parking Lots	\$ 3,712,524
Rolling Stock	5,121,050
Maintenance and Layover Yards	2,179,043
Track and Signal Improvements	130,746
Other Administrative	<u>288,390</u>
Total	<u>\$ 11,431,753</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.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 11. Pending GASB Statements

At June 30, 2020, 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. 84, *Fiduciary Activities*, will improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 87, *Leases*, will increase the usefulness of the 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 June 15, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. Statement No. 89 will be effective for fiscal years beginning after December 15, 2021.

GASB Statement No. 91, *Conduit Debt Obligation*, will provide a single method of reporting conduit debt obligations by issuer and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 will be effective for the fiscal years beginning after December 15, 2021.

GASB Statement No. 92, *Omnibus 2020*, will improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics, including intra-entity transfers, the effective date of No. 87, *Leases*, the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits, the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, terminology used to refer to derivative instruments. Statement No. 92 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will address accounting and financial reporting implications that result from the replacement of an interbank offered rate—most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Portions of Statement No. 93 will be effective for fiscal years beginning after June 15, 2020, June 15, 2021, and December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. Statement No. 94 will be effective for fiscal years beginning after June 15, 2022.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 11. Pending GASB Statements (Continued)

GASB Statement No. 96, *Subscription-Based information Technology Arrangements*, will provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32, will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

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

Note 12. Subsequent Events

In July 2020, the VRE Operations Board authorized the Acting Chief Executive Officer to execute a contract with Svanaco, Inc. (DBA Americaneagle.com) of Des Plaines, Illinois for Mobile Ticketing Services in the amount of \$988,630, plus a 10 percent contingency of \$98,863, for a total amount not to exceed \$1,087,493, for a base year and five option years, with the Chief Executive Officer exercising the option years at his discretion. This will replace VRE's existing mobile ticketing solution.

In July 2020, the VRE Operations Board authorized the Acting Chief Executive Officer to formally withdraw from existing Standard Project Agreements (SPAs) with the Northern Virginia Transportation Authority (NVTA) for the Lorton and Rippon station expansion projects. This is a result of the Commonwealth's Transforming Rail in Virginia program of planned capital investments and associated operating plan. Under the new operating plan, expansions of those two stations are not projected to be needed until 2030 or later. The SPA for Lorton Station had a value of \$7.9 million, and the SPA for Rippon Station had a value of \$10.0 million.

In September 2020, following a nationwide search and affirming the recommendation of the VRE Operations Board, the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportations Commission (PRTC) named the Acting Chief Executive Officer, Rich Dalton, to be the new Chief Executive Officer of VRE. Mr. Dalton was appointed VRE's acting CEO in November 2019. Prior to his appointment as Acting Chief Executive Officer, Mr. Dalton had been with VRE for 11 years as Deputy Chief Executive Officer and Chief Operating Officer.

VIRGINIA RAILWAY EXPRESS

NOTES TO FINANCIAL STATEMENTS

Note 12. Subsequent Events (Continued)

In September 2020, the VRE Operations Board authorized an increase in the Chief Executive Officer's procurement authorization authority to \$1,000,000 and an increase in the Chief Executive Officer's contract award authority to \$200,000.

In September 2020, the VRE Operations Board authorized the Chief Executive Officer to execute a contract with Clark Construction Group, LLC of Bethesda, Maryland for Construction of the Lifecycle Overhaul and Upgrade (LOU) Facility in the amount of \$37,673,006, plus a 10% contingency of \$3,767,301, for a total amount not to exceed \$41,440,307.

In September 2020, the VRE Operations Board authorized the Chief Executive Officer to execute a contract with Archer Western Construction, LLC of Herndon, Virginia, for construction of Quantico Station Improvements in the amount of \$16,709,330, plus a 10% contingency of \$1,670,933, for a total amount not to exceed \$18,380,263. The VRE Operations Board also authorized the Chief Executive Officer (CEO) to execute a contract with Dewberry Engineers Inc. of Fairfax, Virginia, for Construction Management Services for the Quantico Station Improvements in the amount of \$1,868,776, plus a 10% contingency of \$186,878, for a total amount not to exceed \$2,055,654.

In September 2020, the VRE Operations Board authorized the Chief Executive Officer to execute contracts with HDR Engineering, Inc. (HDR) of Vienna, Virginia, for Project Design Services and STV Incorporated (STV) of Fairfax, Virginia, for Construction Management Services for a base year and four option years in an amount not to exceed \$6 million in aggregate per year for a total not to exceed amount of \$30 million in aggregate for the five-year term of the contract.

In October 2020, VRE Operations Board authorized the Chief Executive Officer to execute a contract with Sumter Contracting Corp. of Fairfax, Virginia, for Construction of Rolling Road Station Improvements in the amount of \$2,234,474, plus a 10 percent contingency of \$223,447, for a total amount not to exceed \$2,457,921.

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Required Supplementary Information



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VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,					
	2015	2016	2017	2018	2019	2020
Contractually required contribution (CRC)	\$ 460,763	\$ 478,465	\$ 419,283	\$ 413,760	\$ 354,543	\$ 323,989
Contributions in relation to the CRC	460,763	478,465	419,283	413,760	354,543	323,989
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 7,265,941	\$ 7,785,947	\$ 8,627,885	\$ 8,875,155	\$ 9,076,294	\$ 8,973,619
Contributions as a percentage of covered payroll	6.34%	6.15%	4.86%	4.66%	3.91%	3.61%

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 Commission 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.

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	2018	2019
Total Pension Liability						
Service cost	\$ 722,134	\$ 743,258	\$ 778,686	\$ 756,831	\$ 796,518	\$ 747,243
Interest	763,704	850,266	942,652	1,051,830	1,132,348	1,233,409
Changes of assumptions	-	-	-	(243,263)	108,387	631,239
Differences between expected and actual experience	-	92,275	284,843	38,724	-	312,560
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)	(470,829)	(716,216)
Net change in total pension liability	1,263,313	1,409,867	1,550,103	1,167,210	1,566,424	2,208,235
Total pension liability - beginning	11,021,316	12,284,629	13,694,496	15,244,599	16,411,809	17,978,233
Total pension liability - ending (a)	<u>\$12,284,629</u>	<u>\$13,694,496</u>	<u>\$15,244,599</u>	<u>\$16,411,809</u>	<u>\$17,978,233</u>	<u>\$20,186,468</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 528,296	\$ 460,763	\$ 478,465	\$ 419,283	\$ 413,760	\$ 354,543
Contributions - employee	414,844	494,240	375,574	407,825	411,106	414,063
Net investment income	1,697,173	603,590	259,738	1,829,732	1,265,980	1,249,744
Benefit payments, including refunds of employee contributions	(222,525)	(275,932)	(456,078)	(436,912)	(470,829)	(716,216)
Administrative expense	(8,482)	(7,442)	(8,396)	(9,970)	(10,415)	(11,937)
Other	89	(131)	(107)	(1,654)	(1,150)	(791)
Net change in plan fiduciary net position	2,409,395	1,275,088	649,196	2,208,304	1,608,452	1,289,406
Plan fiduciary net position - beginning	10,379,843	12,789,238	14,064,326	14,713,522	16,921,826	18,530,278
Plan fiduciary net position - ending (b)	<u>12,789,238</u>	<u>14,064,326</u>	<u>14,713,522</u>	<u>16,921,826</u>	<u>18,530,278</u>	<u>19,819,684</u>
PRTC's net pension (asset) liability - ending (a) - (b)	<u>\$ (504,609)</u>	<u>\$ (369,830)</u>	<u>\$ 531,077</u>	<u>\$ (510,017)</u>	<u>\$ (552,045)</u>	<u>\$ 366,784</u>
Plan fiduciary net position as a percentage of the total pension liability	104.11%	102.70%	96.52%	103.11%	103.07%	98.18%
Covered payroll	\$ 6,582,460	\$ 7,265,941	\$ 7,785,947	\$ 8,627,885	\$ 8,875,155	\$ 9,076,294
PRTC's net pension (asset) liability as a percentage of covered payroll	7.67%	5.09%	-6.82%	5.91%	6.08%	-4.04%

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 Commission 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – VIRGINIA RETIREMENT SYSTEM Year Ended June 30, 2020

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except that change in the discount rate, which was VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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
Discount Rate	Decrease rate from 7.00% to 6.75%

VIRGINIA RAILWAY EXPRESS

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

	Fiscal Year June 30,		
	2017	2018	2019
Total Group Life Insurance OPEB Liability			
The Commission's Portion of the Net GLI OPEB Liability	0.04678%	0.04670%	0.04626%
The Commission's Proportionate Share of the Net GLI OPEB Liability	\$ 703,000	\$ 709,000	\$ 752,773
The Commission's Covered Payroll	\$ 8,627,885	\$ 8,875,155	\$ 9,076,294
The Commission's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.15%	7.99%	8.29%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%	51.22%	52.00%

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 Commission 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.

VIRGINIA RAILWAY EXPRESS

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

Last Ten Fiscal Years

	Fiscal Year June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required contribution (CRC)	\$ 25,277	\$ 25,929	\$ 34,313	\$ 34,887	\$ 38,509	\$ 41,266	\$ 44,865	\$ 46,151	\$ 47,196	\$ 46,663
Contributions in relation to the CRC	25,277	25,929	34,313	34,887	38,509	41,266	44,865	46,151	47,196	46,663
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 5,744,800	\$ 5,892,844	\$ 6,474,129	\$ 6,582,460	\$ 7,265,941	\$ 7,785,947	\$ 8,627,885	\$ 8,875,155	\$ 9,076,294	\$ 8,973,619
Contributions as a percentage of covered payroll	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.52%	0.52%	0.52%	0.52%

Note 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.

VIRGINIA RAILWAY EXPRESS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POSTEMPLOYMENT BENEFITS

Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except that change in the discount rate, which was VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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
Discount Rate	Decrease rate from 7.00% to 6.75%

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.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how VRE's financial performance has changed over time.	67 – 70
Other Statistical Information These schedules and service area map provide other information useful to certain readers of VRE's financial statements.	71 – 72
Demographic and Economic Information These schedules offer demographic and economic indicators to assist the reader understand the environment within which VRE's financial activities take place.	73 – 75
Debt Service Requirements These schedules provide information regarding the VRE's debt service requirements related to the 2018 Virginia Resource Authority Bonds.	76 – 77

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGE IN NET POSITION

Last Ten Fiscal Years

(Unaudited)

	June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operating Revenues:										
Passenger revenue	\$ 34,701,955	\$ 41,990,599	\$ 42,221,002	\$ 42,280,669	\$ 37,696,913	\$ 36,700,191	\$ 37,093,476	\$ 34,733,106	\$ 34,721,591	\$ 32,368,123
Equipment rentals and other	267,816	314,236	269,168	301,621	240,052	418,569	197,915	239,381	304,184	200,069
Total operating revenues	34,969,771	42,304,835	42,490,170	42,582,290	37,936,965	37,118,760	37,291,391	34,972,487	35,025,775	32,568,192
Nonoperating Revenues:										
Subsidies:										
Commonwealth of Virginia grants	18,712,734	17,447,509	17,145,270	18,265,581	16,572,077	14,401,957	19,330,105	14,967,197	12,711,602	12,806,509
Federal grants - with PRTC as grantee	15,271,669	15,229,460	15,362,802	15,937,225	13,917,534	13,688,723	15,931,876	18,559,490	17,181,121	16,157,284
CARES Act Federal Aid	2,688,095	-	-	-	-	-	-	-	-	-
Jurisdictional contributions	17,767,748	17,767,748	17,250,240	17,250,240	16,428,800	16,456,986	16,428,800	16,428,800	15,943,917	16,070,307
Commuter Rail Operating and Capital (C-ROC) Fund	15,000,000	15,000,000	-	-	-	-	-	-	-	-
Regional transportation funding (NVTA)	-	194,506	766,586	461,889	542,671	-	-	-	-	-
Capital Grants and Assistance:										
Commonwealth of Virginia grants	2,110,561	1,417,527	13,010,326	3,033,657	9,826,429	14,694,277	-	-	-	-
Federal grants - with PRTC as grantee	3,696,057	3,541,398	9,559,056	15,204,474	22,125,460	17,764,759	5,420,552	1,269,732	9,997,070	40,136,130
Regional transportation funding (NVTA)	1,758,116	2,304,206	615,190	651,163	-	-	-	-	-	-
Federal grants - NVTC and other	-	-	-	-	-	-	-	-	-	3,308,513
In-kind and other local contributions	-	-	12,842	162,839	851,659	1,079,885	2,637,809	328,031	46,924	406,331
Interest income:										
Operating funds	1,009,626	1,360,241	616,228	285,495	93,677	34,337	27,860	18,573	16,813	14,675
Insurance trust	218,621	221,184	132,037	98,560	69,444	-	-	-	-	-
Commuter Rail Operating and Capital (C-ROC) Fund	294,176	117,075	-	-	-	-	-	-	-	-
Other restricted funds	48,899	63,483	797	402	197	59	196	772	1,161	384
Gain (loss) on sale of assets	-	-	(551,457)	3,500	-	(60,293)	1,500	(769,042)	(358,382)	(271,606)
Total nonoperating revenues	78,576,302	74,664,337	73,919,917	71,355,025	80,427,948	78,060,690	59,778,698	50,803,553	55,540,226	88,628,527
Total revenues	113,546,073	116,969,172	116,410,087	113,937,315	118,364,913	115,179,450	97,070,089	85,776,040	90,566,001	121,196,719
Operating Expenses:										
Contract operations and maintenance	28,076,445	26,946,284	26,917,081	25,873,933	24,082,615	22,782,752	23,151,332	21,751,488	21,093,606	21,405,930
Other operations and maintenance	15,446,821	16,579,038	17,492,047	14,461,209	13,662,606	14,334,954	14,891,502	12,785,223	14,594,826	12,949,155
Property leases and access fees	17,425,916	16,698,897	16,693,442	16,236,606	15,175,732	14,318,788	13,924,017	13,504,023	13,123,367	11,756,531
Insurance	4,370,863	3,945,668	3,766,321	3,970,753	4,046,198	3,964,673	3,991,969	4,022,072	3,491,620	4,049,906
Marketing and sales	2,189,698	2,574,583	2,529,388	2,532,214	2,393,332	2,267,729	2,012,321	1,872,343	2,211,354	1,502,434
General and administrative	11,015,700	10,937,062	11,651,412	10,904,945	10,514,343	7,968,298	7,793,040	6,784,379	7,111,871	5,964,956
Depreciation and amortization	19,690,320	18,542,805	18,201,071	17,737,170	16,953,565	15,391,195	14,706,458	14,465,445	13,373,129	12,218,203
Total operating expenses	98,215,763	96,224,337	97,250,762	91,716,830	86,828,391	81,028,389	80,470,639	75,184,973	74,999,773	69,847,115
Nonoperating (Revenues) Expenses:										
Interest and amortization	2,089,883	2,188,383	3,147,164	3,217,756	3,384,762	3,534,644	4,026,724	4,683,094	6,524,348	5,566,829
Total nonoperating expenses, net	2,089,883	2,188,383	3,147,164	3,217,756	3,384,762	3,534,644	4,026,724	4,683,094	6,524,348	5,566,829
Special items	(1,372,379)	-	-	-	1,882,945	-	3,660,786	-	-	-
Total expenses	98,933,267	98,412,720	100,397,926	94,934,586	92,096,098	84,563,033	88,158,149	79,868,067	81,524,121	75,413,944
Change in net assets								\$ 5,907,973	\$ 9,041,880	\$ 45,782,775
Change in net position	\$ 14,612,806	\$ 18,556,452	\$ 16,012,161	\$ 19,002,729	\$ 26,268,815	\$ 30,616,417	\$ 8,911,940			

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

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

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF COMPONENTS OF NET POSITION Last Ten Fiscal Years (Unaudited)

	June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net investment in capital assets	\$ 279,674,828	\$ 282,554,207	\$ 289,271,966	\$ 279,920,481	\$ 274,136,653	\$ 254,085,092	\$ 220,069,396	\$ 220,007,440	\$ 220,396,390	\$ 213,710,235
Restricted for liability insurance plan	10,320,199	10,527,621	10,536,336	10,470,506	10,439,990	10,487,532	10,454,171	10,294,874	10,156,492	10,052,968
Restricted for debt service	2,016,642	2,029,382	1,996,544	-	-	-	6,731,166	6,563,328	6,408,466	6,259,239
Restricted grants or contributions	2,526,137	1,120,762	1,094,246	779,223	779,223	-	-	140,270	951,342	600,250
Unrestricted assets	114,277,648	97,970,676	72,747,104	68,885,778	55,697,393	50,211,820	46,973,386	35,845,639	28,056,773	24,277,019
Total net assets								<u>\$ 272,851,551</u>	<u>\$ 265,969,463</u>	<u>\$ 254,899,711</u>
Total net position	<u>\$ 408,815,454</u>	<u>\$ 394,202,648</u>	<u>\$ 375,646,196</u>	<u>\$ 360,055,988</u>	<u>\$ 341,053,259</u>	<u>\$ 314,784,444</u>	<u>\$ 284,228,119</u>			

Note: Method of reporting was revised for fiscal year 2011.
Fiscal year 2012 balance restated to comply with GASB 63.

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT Last Ten Fiscal Years (Unaudited)

	June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Revenue Bonds:										
\$37,625,000 Commuter Rail Revenue Bond, Series 1993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$31,700,000 Commuter Rail Revenue Bond, Series 1998	-	-	-	-	-	-	6,555,000	12,775,000	18,685,000	24,295,000
Bonds Payable:										
\$46,640,000 Virginia Resources Authority (VRA) Bond 2018	42,120,000	44,360,000	46,640,000	-	-	-	-	-	-	-
\$5,972,388 Unamortized Premium on VRA Bond 2018	5,076,530	5,474,689	5,872,848	-	-	-	-	-	-	-
Capital Leases:										
\$25,100,000 Capitalized Lease Obligation	8,541,916	10,029,785	11,451,643	12,810,417	14,108,906	15,349,786	16,535,611	17,668,825	18,751,762	19,786,652
\$74,425 Capitalized Lease Obligation	-	2,628	17,559	34,287	50,048	64,331	-	-	-	-
Notes Payable:										
\$900,000 SunTrust Bank	-	-	-	-	-	-	-	-	320,000	380,000
\$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
Outstanding as of June 30	<u>\$ 55,738,446</u>	<u>\$ 59,867,102</u>	<u>\$ 63,982,050</u>	<u>\$ 66,284,863</u>	<u>\$ 69,787,896</u>	<u>\$ 73,123,973</u>	<u>\$ 82,789,191</u>	<u>\$ 92,039,590</u>	<u>\$ 101,166,421</u>	<u>\$ 107,767,263</u>
Debt per Capita:										
Outstanding as of June 30	\$ 55,738,446	\$ 59,867,102	\$ 63,982,050	\$ 66,284,863	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191	\$ 92,039,590	\$ 101,166,421	\$ 107,767,263
Total Participating Jurisdictional Population	N/A	N/A	2,359,496	2,337,817	2,317,895	2,306,056	2,291,535	2,272,215	2,238,627	2,189,988
Debt per Capita	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 28.35</u>	<u>\$ 30.11</u>	<u>\$ 31.71</u>	<u>\$ 36.13</u>	<u>\$ 40.51</u>	<u>\$ 45.19</u>	<u>\$ 49.21</u>
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	\$ 55,738,446	\$ 59,867,102	\$ 63,982,050	\$ 66,284,863	\$ 69,787,896	\$ 73,123,973	\$ 82,789,191	\$ 92,039,590	\$ 101,166,421	\$ 107,767,263
Total Personal Income	N/A	N/A	153,972,487,000	151,441,311,000	146,772,212,000	145,936,939,309	140,076,022,000	137,635,549,000	135,296,802,000	126,548,575,000
Total Outstanding Debt as a Percentage of Personal Income	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0.04%</u>	<u>0.05%</u>	<u>0.05%</u>	<u>0.06%</u>	<u>0.07%</u>	<u>0.07%</u>	<u>0.09%</u>

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

- (1) Fairfax County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 297
- (2) Prince William County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 271
- (3) City of Manassas fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 143
- (4) City of Manassas Park fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 13, page 172
- (5) Stafford County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-15; page 194
- (6) City of Fredericksburg fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 195
- (7) Spotsylvania County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 192
- (8) City of Alexandria fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 228
- (9) Arlington County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table K, page 278

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS Last Ten Fiscal Years (Unaudited)

	June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fairfax County	\$ 6,253,022	\$ 5,385,794	\$ 6,099,300	\$ 5,160,910	\$ 4,847,284	\$ 4,852,953	\$ 4,747,684	\$ 4,511,265	\$ 4,876,961	\$ 4,906,693
City of Fredericksburg	321,028	436,568	417,278	483,524	439,366	581,244	427,728	339,064	420,566	405,980
City of Manassas	694,742	785,898	684,586	749,372	766,491	686,944	757,804	642,662	817,993	871,611
City of Manassas Park	405,485	511,311	474,718	511,777	576,699	401,762	574,709	441,702	566,504	544,763
Prince William County	6,098,311	6,183,745	5,363,372	5,968,406	5,309,674	5,485,333	5,748,203	4,761,324	5,859,007	6,384,660
Stafford County	2,352,820	2,475,127	2,344,514	2,647,221	2,855,607	2,689,391	2,529,281	1,892,640	2,505,805	2,634,002
Spotsylvania County	1,285,670	1,632,635	1,520,191	1,382,749	1,303,888	1,401,382	1,313,600	3,510,352	577,020	-
City of Alexandria	144,807	144,807	140,589	140,589	133,894	133,894	133,894	133,894	129,944	130,974
Arlington County	211,863	211,863	205,692	205,692	195,897	195,897	195,897	195,897	190,117	191,624
Total contributions	\$ 17,767,748	\$ 17,767,748	\$ 17,250,240	\$ 17,250,240	\$ 16,428,800	\$ 16,428,800	\$ 16,428,800	\$ 16,428,800	\$ 15,943,917	\$ 16,070,307

Source: VRE's Department of Finance

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS Last Ten Fiscal Years (Unaudited)

	June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Rolling Stock (Owned or Leased)										
Locomotives	20	20	20	20	20	20	20	20	22	25
Railcars	100	100	100	98	100	93	91	91	91	101
Total rolling stock	120	120	120	118	120	113	111	111	113	126
Stations	19	19	19	19	19	18	18	18	18	18
Parking Spaces (2)	10,763	10,795	10,796	10,796	10,743	9,243	9,030	9,030	8,824	8,824
Employees	50	50	50	49	45	39	37	37	37	37
Ridership and Fare Revenue Data (1):										
Total Ridership	3,273,884	4,477,266	4,705,529	4,761,035	4,441,858	4,618,169	4,547,911	4,643,898	4,771,987	4,517,366
Average Daily Ridership	12,922	18,053	18,974	18,968	17,767	18,547	18,119	18,878	19,088	18,377
Average Fare Per Trip	\$ 10.60	\$ 9.38	\$ 8.97	\$ 8.88	\$ 8.49	\$ 7.95	\$ 8.16	\$ 7.48	\$ 7.28	\$ 7.17

(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.

(2) In fiscal year 2020, VRE performed a full survey of parking facilities including space counts, resulting in minor changes to multiple station counts.

(3) Ridership in the fourth quarter of fiscal year 2020 was negatively affected by the COVID-19 Novel Coronavirus pandemic.

Source: VRE staff



VIRGINIA RAILWAY EXPRESS

PRINCIPAL EMPLOYERS OF PARTICIPATING JURISDICTIONS

Current Year and Nine Years Ago
(Unaudited)

Employers	2019			2010		
	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1) (4) (6) (3)	1	50,521 - 55,520+	N/A	1	28,070 - 48,569	N/A
Fairfax County Public Schools (1)	2	24,936	N/A	2	22,852	N/A
Inova Health System (1) (6)	3	11,700 - 12,700	N/A	6	7,000 - 10,000	N/A
Fairfax County Government (1)	4	11,860	N/A	4	11,184	N/A
Booz-Allen Hamilton (1) (2)	5	6,800 - 11,799	N/A	3	8,370 - 11,370	N/A
George Mason University (1)	6	7,000 - 9,999	N/A	9	4,000 - 6,999	N/A
Capital One (1)	7	5,000 - 9,999	N/A	0	-	N/A
Science Applications International Corporation (1)	8	5,000 - 9,999	N/A	0	-	N/A
Deloitte (2)	9	9,400	N/A	0	-	N/A
Accenture (2)	10	5,000	N/A	0	-	N/A
Lockheed Martin (1) (5)	-	-	N/A	5	7,236 - 10,235	N/A
Alexandria City Public Schools (6)	-	-	N/A	7	2,000 - 10,000	N/A
City of Alexandria (6)	-	-	N/A	8	2,000 - 10,000	N/A
Northrop Grumman (1)	-	-	N/A	10	4,000 - 6,999	N/A

Sources:

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

- (1) County of Fairfax fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 298
- (2) County of Arlington fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table L, page 279
- (3) County of Prince William fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 272
- (4) County of Stafford fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-17, page 196
- (5) County of Spotsylvania fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-14, page 193
- (6) City of Alexandria fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 233
- (7) City of Manassas fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 144
- (8) City of Manassas Park fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 173
- (9) City of Fredericksburg fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 196

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS

Fiscal Years 2010 to 2019

(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)
2019									
Population	N/A	466,496	N/A	17,307	149,110	29,144	135,000	156,800	226,400
Personal Income (in thousands)	N/A	\$29,610,860	N/A	\$512,997	\$7,141,369	\$1,422,897	\$6,591,119	N/A	\$20,259,857
Per Capita Personal Income	N/A	\$54,201	N/A	\$29,641	\$47,893	\$48,823	\$48,823	N/A	\$89,487
Unemployment Rate	N/A	2.6%	2.6%	2.1%	2.7%	3.5%	3.2%	2.2%	2.0%
2018									
Population	1,152,873	460,457	41,641	16,528	145,699	28,360	134,238	154,500	225,200
Personal Income (in thousands)	\$90,357,574	\$28,576,021	N/A	\$489,906	\$6,841,181	\$1,339,442	\$6,553,916	N/A	\$19,814,447
Per Capita Personal Income	\$78,376	\$53,556	N/A	\$29,641	\$46,954	\$47,230	\$48,823	N/A	\$87,986
Unemployment Rate	2.4%	2.9%	2.8%	2.7%	3.3%	4.3%	3.2%	2.4%	2.5%
2017									
Population	1,142,888	456,126	41,501	16,591	144,612	28,297	132,802	152,200	222,800
Personal Income (in thousands)	\$86,834,344	\$27,581,837	\$2,196,606	\$478,667	\$6,657,002	\$1,313,009	\$6,483,806	N/A	\$19,896,040
Per Capita Personal Income	\$75,978	\$52,929	\$52,929	\$28,851	\$46,034	\$46,401	\$48,823	\$84,079	\$89,300
Unemployment Rate	3.0%	3.5%	3.4%	3.4%	3.6%	4.6%	3.8%	2.9%	2.6%
2016									
Population	1,138,652	449,864	41,483	15,827	142,380	28,118	131,271	149,900	220,400
Personal Income (in thousands)	\$85,311,224	\$26,379,952	\$2,128,617	\$456,625	\$6,425,740	\$1,256,818	\$6,211,476	N/A	\$18,601,760
Per Capita Personal Income	\$74,923	\$51,313	\$51,313	\$28,851	\$45,131	\$44,698	\$47,318	\$83,167	\$84,400
Unemployment Rate	3.2%	3.7%	3.4%	3.9%	4.0%	4.8%	4.3%	2.9%	2.9%
2015									
Population	1,142,234	441,627	41,764	15,625	142,299	28,213	129,944	147,650	216,700
Personal Income (in thousands)	\$85,675,546	\$25,582,348	\$2,101,356	\$440,062	\$6,296,162	\$1,201,676	\$6,025,259	N/A	\$18,614,530
Per Capita Personal Income	\$75,007	\$50,278	\$50,315	\$28,164	\$44,246	\$42,593	\$46,368	\$82,253	\$85,900
Unemployment Rate	3.1%	4.4%	4.1%	4.4%	5.2%	6.2%	4.8%	3.5%	3.4%
2014									
Population	1,137,538	433,621	42,081	14,992	138,423	28,132	128,804	144,000	215,000
Personal Income (in thousands)	\$81,620,627	\$24,377,908	\$2,042,822	\$420,586	\$6,091,966	\$1,215,809	\$5,751,804	N/A	\$18,554,500
Per Capita Personal Income	\$71,752	\$48,545	\$48,545	\$28,054	\$44,010	\$43,218	\$44,655	\$80,506	\$86,300
Unemployment Rate	3.5%	4.8%	5.0%	4.5%	5.2%	5.9%	5.5%	4.6%	3.5%

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS

Fiscal Years 2010 to 2019

(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)
2013									
Population	1,130,924	425,681	41,725	15,125	135,311	27,307	127,385	142,000	221,045
Personal Income (in thousands)	\$80,982,075	\$23,468,904	\$1,973,426	\$407,528	\$5,900,913	\$1,116,665	\$5,551,815	N/A	\$18,234,223
Per Capita Personal Income	\$71,607	\$47,296	\$47,296	\$26,944	\$43,610	\$40,893	\$43,583	\$77,419	\$82,491
Unemployment Rate	3.7%	5.2%	5.4%	5.0%	5.1%	8.2%	6.2%	4.7%	4.0%
2012									
Population	1,118,602	418,107	40,742	14,409	132,719	26,024	125,808	140,800	216,004
Personal Income (in thousands)	\$77,012,392	\$23,464,178	\$1,965,150	\$393,452	\$5,674,401	\$1,064,199	\$5,543,858	N/A	\$17,273,192
Per Capita Personal Income	\$68,847	\$48,234	\$48,234	\$27,306	\$42,755	\$40,893	\$44,066	\$81,896	\$79,967
Unemployment Rate	4.4%	5.3%	5.6%	4.7%	4.9%	8.8%	6.5%	4.6%	3.5%
2011									
Population	1,100,692	410,454	39,358	13,759	129,772	25,691	124,516	140,100	210,280
Personal Income (in thousands)	\$71,145,429	\$22,755,668	\$1,888,948	\$371,204	\$5,439,653	\$1,050,582	\$5,360,518	N/A	\$15,707,916
Per Capita Personal Income	\$64,637	\$47,994	\$47,994	\$26,979	\$41,917	\$40,893	\$43,051	\$78,383	\$74,700
Unemployment Rate	4.7%	5.7%	6.1%	5.2%	5.2%	10.3%	7.0%	4.8%	3.9%
2010									
Population	1,081,726	402,002	37,821	13,195	128,961	24,286	122,397	139,993	212,200
Personal Income (in thousands)	\$72,577,324	\$21,375,534	\$1,761,021	\$360,685	\$5,265,160	\$954,391	\$5,078,745	N/A	\$15,217,499
Per Capita Personal Income	\$67,094	\$46,562	\$46,562	\$27,335	\$40,828	\$39,298	\$41,494	\$76,362	\$71,713
Unemployment Rate	5.1%	6.1%	7.0%	5.8%	5.7%	9.6%	7.0%	4.8%	4.3%

Note; Data for participating jurisdictions not available for 2020.

Sources:

- (1) Fairfax County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 297
- (2) Prince William County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 271
- (3) City of Manassas fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 143
- (4) City of Manassas Park fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 13, page 172
- (5) Stafford County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-15; page 194
- (6) City of Fredericksburg fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table 15, page 195
- (7) Spotsylvania County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 192
- (8) City of Alexandria fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 228
- (9) Arlington County fiscal year 2019 Comprehensive Annual Financial Report, Statistical Section, Table K, page 278

VIRGINIA RAILWAY EXPRESS

PLEDGED REVENUE COVERAGE

Beginning Fiscal Year 2018

(Unaudited)

Fiscal Year Ended June 30,	Revenues ⁽¹⁾	Less: Operating Expenses ⁽²⁾	Net Revenues Available for Debt Service	Annual VRA Debt Service	Coverage
2020	\$ 103,891,456	\$ (78,525,443)	\$ 25,366,013	\$ 4,290,400	5.91
2019	107,517,658	(77,681,532)	29,836,126	4,290,993	6.95
2018	90,065,509	(79,049,691)	11,015,818	n/a	n/a

Notes:

(1) Includes operating and net non-operating revenues (subsidies and interest income)

(2) Net of depreciation and amortization

VIRGINIA RAILWAY EXPRESS

WORKING CAPITAL RESERVE FUND

Beginning Fiscal Year 2018

(Unaudited)

Fiscal Year Ended June 30,	Cash & Cash Equivalents	Operating Expenses	Less:		90 Days of Cash Expenses (25%)	Ratio
			Depreciation/ Amortization	Cash Expenses		
2020	\$ 97,142,781	\$ 98,215,763	\$ (19,690,320)	\$ 78,525,443	\$ 19,631,361	4.9x
2019	75,278,280	96,224,337	(18,542,805)	77,681,532	19,420,383	3.9x
2018	51,186,348	97,250,762	(18,201,071)	79,049,691	19,762,423	2.6x

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, 2020, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements, and have issued our report thereon dated November 3, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
November 3, 2020

A Transportation Partnership

