

VIRGINIA PASSENGER RAIL AUTHORITY

A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA



FINANCIAL STATEMENTS AND COMPLIANCE REPORTING
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021
AND REPORT OF INDEPENDENT AUDITOR

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
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VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
PRINCIPAL OFFICIALS AND KEY PERSONNEL

Board

Officers

| | |
|------------|-------------------|
| Chair | Jennifer Mitchell |
| Vice-Chair | Sharon Bulova |
| Treasurer | Hossein Sadid |
| Secretary | Jim Spore |

Members

Deborah Butler Painter
Victor Cardwell
Patricia Doersch
Jay Fisette
Roderick Hall
Charles “Wick” Moorman
Cynthia Moses-Nedd
Paul Nichols
Mariia Zimmerman
Rich Dalton, non-voting
Bruno Maestri, non-voting

Management

| | |
|---|--------------------|
| Executive Director | DJ Stadtler |
| Chief Operating Officer | Michael McLaughlin |
| Chief Financial Officer | Steve Pittard |
| Controller | Ashley Nusbaum |
| Director, Financial Planning and Budget | Shannon Perry |

Report of Independent Auditor

To the Board of Directors
Virginia Passenger Rail Authority
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Passenger Rail Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 that 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 financial position of the Virginia Passenger Rail Authority, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, changes in financial position, and cash flows of only that portion of the Commonwealth of Virginia that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Virginia, as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The listing of Principal Officials and Key Personnel is presented for purposes of additional information and is not a required part of the basic financial statements. The listing of Principal Officials and Key Personnel has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Authority'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 Authority's internal control over financial reporting and compliance.



Richmond, Virginia
October 22, 2021

VIRGINIA PASSENGER RAIL AUTHORITY

A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Management's Discussion and Analysis (the "MD&A") of the Virginia Passenger Rail Authority's (the "Authority"), a component unit of the Commonwealth of Virginia, activities and financial performance provides the reader with an introduction and overview to the basic financial statements of the Authority, as of and for the fiscal year ended June 30, 2021. The information contained in MD&A should be considered in conjunction with the financial statements and various historic summaries of activities and financial performance included in this report.

Following the MD&A are the financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

Financial Operations and Highlights

- The Authority was established by Section 33.2-287 et seq. of Chapter 1230 of the 2020 Virginia Acts of Assembly with a mission to promote, sustain, and expand the availability of passenger and commuter rail service throughout the Commonwealth of Virginia (the "Commonwealth"). The effective date for the Authority was set as July 1, 2020.
- The Commonwealth Rail Fund (the "CRF") was established July 1, 2020, through Section 33.2-1526.4 of the *Code of Virginia*. Of the 7.5% of Commonwealth Transportation Trust Funds deposited into the CRF, 93% of these funds are then distributed to the Authority (approximately \$97.7 million for the year ended June 30, 2021).
- Prior rail program monies of \$302.7 million held in the Rail Enhancement Fund (the "REF") and the Intercity Passenger Rail Operating and Capital (the "IPROC") Fund, as of June 30, 2020, were transferred to the Authority in accordance with the Item 443.D. of the 2020 Virginia Acts of Assembly, Chapter 1289.
- The Authority ended its first year of operations with a net position of \$465.8 million consisting primarily of capital assets related to the purchase of passenger easement rights and of right-of-way in the I-95 rail corridor, as well as the beginning rail fund program cash balances.
- Operating income from passenger rail services was \$9.9 million less than related operating expenses and Authority administrative costs.
- For the year ended June 30, 2021, nonoperating revenues were \$494.5 million and capital grants reimbursements provided by the Authority to various transportation related entities were \$18.8 million.

Financial Statements

The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority is structured as an enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land, intangible assets, and construction in progress) are depreciated over their useful lives. Reference the notes to the financial statements for a summary of the Authority's significant accounting policies.

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Financial Position Summary

Net position may serve over time as a useful indicator of the Authority's financial strength, although other indicators should also be considered. A condensed summary of the Authority's Statement of Net Position at June 30, 2021 is shown below. Since this was the Authority's first year in existence, there is no prior year comparative data.

| | <u>2021</u> |
|-------------------------------------|------------------------------|
| Assets: | |
| Current and other assets | \$ 243,057,114 |
| Capital and other noncurrent assets | <u>558,630,502</u> |
| Total Assets | <u>801,687,616</u> |
| Liabilities: | |
| Current liabilities | 210,833,373 |
| Long-term liabilities | <u>125,071,883</u> |
| Total Liabilities | <u>335,905,256</u> |
| Net Position: | |
| Net Investment in Capital Assets | 224,771,672 |
| Unrestricted | <u>241,010,688</u> |
| Total Net Position | <u>\$ 465,782,360</u> |

The Authority's assets exceeded liabilities by \$465.8 million at June 30, 2021. The largest portion of the Authority's net position represents its investment in capital assets, less the related outstanding indebtedness of \$325 million used to acquire those capital assets. The Authority will use these capital assets to provide passenger rail services in the Commonwealth; consequently, these assets are not available for future spending. The majority of the remaining net position is the net balance of cash and cash equivalents of \$232.1 million.

The Statement of Revenues, Expenses, and Changes in Net Position provides the detail of what caused the change in the Authority's net position during the fiscal year. A summary of the changes in net position during the fiscal year ended June 30, 2021 is shown below. Since this was the Authority's first year in existence, there is no prior year comparative data.

| | <u>2021</u> |
|---|------------------------------|
| Operating revenues | \$ 22,232,251 |
| Operating expenses | <u>32,167,160</u> |
| Loss before nonoperating revenues (expenses) | (9,934,909) |
| Nonoperating revenues, net | 475,717,269 |
| Change in Net Position | <u>\$ 465,782,360</u> |

VIRGINIA PASSENGER RAIL AUTHORITY

A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

Operating revenues are made up of passenger rail services, notably \$21.3 million of passenger ticket revenues. Operating expenses of the contracted passenger service of \$28.9 million and \$3.3 million of selling, general, and administrative expenses exceeded operating revenues by \$9.9 million during the year ended June 30, 2021. During the year, Amtrak received federal funding from the Coronavirus Aid, Relief, and Economic Security Act, (the "CARES") and Coronavirus Response and Relief Supplemental Appropriations Act (the "CRRSAA"). These funds were applied to passenger service operating expenses, reducing the Authority's operating costs by \$25.3 million.

Net nonoperating revenues included asset transfers from the Commonwealth of \$302.7 million of cash, \$10.9 million of Amtrak capital equipment credit related to the Route 29 service, and \$6.4 million of capital assets at the Staples Mill passenger station. Additionally, other nonoperating items include the CRF revenues of \$97.7 million, Commonwealth Priority Transportation Fund (the "PTF") revenues of \$74.7 million, interest income of \$2.1 million, and grant expenditures of \$18.8 million.

Capital Acquisitions and Construction Activities

As of June 30, 2021, the Authority recorded \$549.8 million in capital assets, which included the I-95 Rail Corridor Intangible Asset of \$535.5 million, Construction in Progress of \$7.3 million, the Staples Mill Station parking lot and related land transferred from the Commonwealth of \$6.4 million, and other assets totaling \$0.6 million.

During the past year, the Commonwealth, acting through the Department of Rail and Public Transportation (the "DRPT"), completed efforts to purchase certain rail capacity, right-of-way, and rail infrastructure from CSX Corporation (the "CSXT"). The Comprehensive Rail Agreement (the "CRA") between DRPT and CSXT was finalized on March 26, 2021. As certain condition precedents were not finalized until April 14th, the first of three contractual payments was made on that date to CSXT using Authority funding. As allowed by Section 1.6 of the CRA, the Authority formally assumed the underlying assets and liabilities resulting from this agreement at its May 24, 2021 Board meeting.

The CRA outlines the required payments, passenger rail service easements, and rail segment asset transfer options. The required contractual payments are as follows:

| | |
|-------------------|---------------|
| April 14, 2021 | \$200 million |
| November 30, 2021 | \$200 million |
| November 30, 2022 | \$125 million |

The two future payments must be made regardless of the acceptance of Segments 2 and 3. The installment payments do not correlate to the value of the offered segments. The rail segments are as follows:

- Segment 1 (I-95 Corridor): approximately one-half of the 144-mile rail corridor from just inside Washington, DC to just south of Petersburg, VA with passage through Richmond, VA by way of Main Street Station.
- Segment 2 (S-Line): 75-mile rail corridor from just south of Petersburg, VA to Ridgeway, NC (acceptance date – November 30, 2022).
- Segment 3 (Buckingham Branch): east-west 164-mile CSXT line from Doswell, VA to Clifton Forge, VA operated by Buckingham Branch Railroad through a lease (acceptance date – November 30, 2021).

At this time, the agreement provided the Authority with a permanent passenger rail service easement in the I-95 rail corridor owned by CSXT. Survey work is currently being performed to determine the nature of the assets (land, track, bridges, rail infrastructure) associated with the I-95 Corridor right-of-way. As that work progresses,

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

deeds of confirmation will allow for the fee simple ownership of the right of way and rail infrastructure to pass to the Authority. Additionally, survey work for Segments 2 and 3 is being performed to determine if the Authority will accept these segments.

At June 30, 2021, the allocation of rail infrastructure assets obtained in Segment 1 was not determinable. The purchase is recorded as an intangible asset until the survey work is completed. In accordance with the CRA, the survey and titling work must be completed by June 30, 2024 for all three segments. At that time, if the surveys are successful, any assets will be converted from an intangible to fee simple land and infrastructure ownership. Subsequently, the capital asset elements will be known, and the I-95 intangible asset will be allocated to the asset components accordingly. The fixed assets will then be depreciated over their respective useful lives.

Long-Term Obligations

The Authority's long-term obligations consists of a contractual obligation in the amount of \$125 million to be paid to CSXT on November 30, 2022 in accordance with the CRA and \$71,883 for compensated absences.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the outbreak and spread of a novel strain of coronavirus (the "COVID-19"). Following this, on March 16th, United States' guidelines were issued to restrict discretionary travel. As you will see in the operating activity totals, the pandemic greatly impacted the passenger rail operations throughout the United States. The longer-term effects of the COVID-19 pandemic on the Authority's operations and financials remain uncertain.

After a sharp decline in ridership beginning in mid-March and restrictions on travel, service to and from Richmond's Staples Mill Station was suspended in March 2020. On September 27, 2021, this service resumed and included the extension to Main Street Station. At this time, service levels provided in Virginia have returned to pre-pandemic levels.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Chief Financial Officer for the Virginia Passenger Rail Authority, 600 East Main Street, Suite 2125, Richmond, Virginia 23219.

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENT OF NET POSITION

JUNE 30, 2021

ASSETS

Current Assets:

| | | |
|---------------------------|----|-------------|
| Cash and Cash Equivalents | \$ | 232,051,620 |
| Accounts Receivable | | 11,005,494 |

| | | |
|-----------------------------|--|--------------------|
| Total Current Assets | | 243,057,114 |
|-----------------------------|--|--------------------|

Noncurrent Assets:

| | | |
|---|--|-------------|
| Credit Receivable | | 8,858,830 |
| Capital Assets | | |
| Facilities | | 3,920,066 |
| Land | | 2,527,206 |
| Construction in Progress: I-95 Corridor | | 7,299,894 |
| Intangible Asset: I-95 Corridor | | 535,438,037 |
| Other Noncurrent Assets | | 586,469 |
| Total Capital Assets | | 549,771,672 |

| | | |
|--------------------------------|--|--------------------|
| Total Noncurrent Assets | | 558,630,502 |
|--------------------------------|--|--------------------|

| | | |
|---------------------|--|--------------------|
| TOTAL ASSETS | | 801,687,616 |
|---------------------|--|--------------------|

LIABILITIES AND NET POSITION

Current Liabilities:

| | | |
|---|--|-------------|
| Accounts Payable | | 1,253,869 |
| Accrued Payroll | | 56,504 |
| Due to Department of Rail and Public Transportation | | 4,119,000 |
| Other Accrued Liabilities | | 5,404,000 |
| Contractual Obligations: I-95 Corridor | | 200,000,000 |

| | | |
|----------------------------------|--|--------------------|
| Total Current Liabilities | | 210,833,373 |
|----------------------------------|--|--------------------|

Noncurrent Liabilities:

| | | |
|--|--|-------------|
| Contractual Obligations: I-95 Corridor | | 125,000,000 |
| Compensated Absences | | 71,883 |

| | | |
|-------------------------------------|--|--------------------|
| Total Noncurrent Liabilities | | 125,071,883 |
|-------------------------------------|--|--------------------|

| | | |
|--------------------------|--|--------------------|
| TOTAL LIABILITIES | | 335,905,256 |
|--------------------------|--|--------------------|

Net Position:

| | | |
|----------------------------------|--|-------------|
| Net Investment in Capital Assets | | 224,771,672 |
| Unrestricted | | 241,010,688 |

| | | |
|---------------------------|--|--------------------|
| TOTAL NET POSITION | | 465,782,360 |
|---------------------------|--|--------------------|

| | | |
|---|-----------|--------------------|
| TOTAL LIABILITIES AND NET POSITION | \$ | 801,687,616 |
|---|-----------|--------------------|

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

Operating Revenues:

| | |
|---------------------------------|-------------------|
| Virginia Passenger Revenues | \$ 22,232,251 |
| Total Operating Revenues | 22,232,251 |

Operating Expenses

| | |
|--|-------------------|
| Amtrak Operating | 22,721,825 |
| Amtrak Capital | 6,141,541 |
| Amtrak Marketing | 631,426 |
| Office/General Administrative Expenses | 2,672,368 |
| Total Operating Expenses | 32,167,160 |

| | |
|---------------------------|--------------------|
| Net Operating Loss | (9,934,909) |
|---------------------------|--------------------|

Nonoperating Revenues (Expenses):

| | |
|---|--------------------|
| Transfer In: Commonwealth of Virginia | 320,002,684 |
| Commonwealth Rail Fund | 97,760,332 |
| Commonwealth Priority Transportation Fund | 74,692,622 |
| Interest Income | 2,066,058 |
| Capital Grants | (18,804,427) |
| Total Nonoperating Revenues, net | 475,717,269 |

| | |
|-------------------------------|--------------------|
| Change in Net Position | 465,782,360 |
|-------------------------------|--------------------|

| | |
|--|-----------------------|
| Net Position, beginning of the year | - |
| Net Position, ending | \$ 465,782,360 |

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

| | |
|---------------------------------------|---------------|
| Receipts from customers | \$ 22,232,251 |
| Payments to employees | (128,823) |
| Payments to suppliers | (29,653,199) |
| Net cash used in operating activities | (7,549,771) |

Cash flows from non-capital and related financing activities:

| | |
|---|--------------|
| Noncapital contributions and grants | 466,273,062 |
| Grants and assistance | (13,538,506) |
| Net cash provided by non-capital and related financing activities | 452,734,556 |

Cash flows from capital and related financing activities:

| | |
|---|---------------|
| Acquisition of capital assets | (215,070,203) |
| Net cash used in capital and related financing activities | (215,070,203) |

Cash flows from investing activities:

| | |
|---|-----------|
| Interest received and other income | 1,937,038 |
| Net cash provided by investing activities | 1,937,038 |

Net increase in cash and cash equivalents 232,051,620

| | |
|--|---------------|
| Cash and cash equivalents, beginning of year | - |
| Cash and cash equivalents, end of year | \$232,051,620 |

Reconciliation of operating loss to net cash

used in operating activities:

| | |
|---|----------------|
| Loss from operations | \$ (9,934,909) |
| Adjustments to reconcile operating loss from operations to net cash used in operating activities: | |
| Increase in operating liabilities: | |
| Accounts payable | 61,751 |
| Accrued liabilities | 2,251,504 |
| Compensated absences | 71,883 |
| Net cash used in operating activities | \$ (7,549,771) |

Schedule of Noncash Capital Activities:

| | |
|---|-------------|
| Capital assets acquired through a transfer-in from the Commonwealth | 6,447,272 |
| Capital assets acquired through contractual obligations | 325,000,000 |

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 1—Organization and nature of business

The Virginia Passenger Rail Authority (the “Authority”) was established by Section 33.2-287 et seq. of Chapter 1230 of the 2020 Acts of Assembly with a mission to promote, sustain, and expand the availability of passenger and commuter rail service throughout the Commonwealth of Virginia (the “Commonwealth”) with an inception date of July 1, 2020. During this initial year, the Department of Rail and Public Transportation (the “DRPT”) provided critical administrative support services to the Authority based on an agreement between the two entities that required reimbursement by the Authority.

As part of the same transportation legislative initiative, the Commonwealth Rail Fund (the “CRF”) was established July 1, 2020, through Section 33.2-1526.4 of the *Code of Virginia*. Of the 7.5% of Commonwealth Transportation Trust Funds deposited into the CRF, 93% are dedicated to the Authority and distributed to the Authority as soon as practical. For the year ended June 30, 2021, \$97.8 million of CRF monies were distributed to the Authority.

Prior rail program monies of \$302.7 million held in the Rail Enhancement Fund (the “REF”) and the Intercity Passenger Rail Operating and Capital (the “IPROC”) Fund, as of June 30, 2020, were distributed to the Authority in accordance with the Item 443.D. of the 2020 Virginia Acts of Assembly, Chapter 1289. In addition to the initial transfer of CRF monies, the Commonwealth contributed the parking facility at Staples Mill Station of \$6.4 million and an Amtrak capital equipment credit of \$10.9 million. The initial contribution of cash and assets is recorded as a transfer in from the Commonwealth.

The Authority is considered a component unit of the Commonwealth, as its Board is primarily appointed by the Commonwealth and, as such, the Authority is included as a discretely presented component unit in the basic financial statements of the Commonwealth’s Annual Comprehensive Financial Report.

The Authority has been funded primarily through passenger rail fees and intergovernmental revenues provided by the Commonwealth and other partners.

Note 2—Summary of significant accounting policies

Financial Reporting Model

The financial statements presented for the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (the “GAAP”) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (the “GASB”). GAAP sets the reporting model requirements for the annual financial reports of state and local governments. For entities like the Authority that are engaged solely in business-type activities, the annual financial report includes:

- Management’s Discussion and Analysis – GAAP requires that financial statements be accompanied by a narrative introduction and analytical overview of the Authority’s financial activities in the form of “management’s discussion and analysis.”
- Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority. The net position of the Authority is broken down into two categories – (1) net investment in capital assets and (2) unrestricted.
- Statement of Revenues, Expenses, and Changes in Net Position – The Statement of Revenues, Expenses, and Changes in Net Position is designed to display the financial activities of the entity.
- Statement of Cash Flows – The Statement of Cash Flows is designed to display the cash inflows and outflows for the operating, financing, and investing activities of the Authority. The direct method of presenting cash flows is utilized.

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Measurement focus and basis of accounting

The Authority's financial statements are presented as a business-type activity using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP as prescribed by the GASB. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when incurred. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. The Authority generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Authority may defer the use of restricted assets based on a review of the specific transaction.

Operating revenues and expenses result from the provision of goods and services in connection with the principal ongoing operations. The principal operating revenues of the Authority are charges for services related to passenger rail operations. Operating expenses include the cost of passenger rail services, administrative expenses, contractual services, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. All ticket revenues are collected and retained by Amtrak in lieu of the monthly payment for the train service in accordance with the operating agreement.

Cash and cash equivalents

The Authority considers cash and all highly liquid investments, with a maturity of three months or less when purchased, as cash and cash equivalents.

Investment policy

The Authority follows a deposit and investment policy in accordance with the Commonwealth's statutes. Investments with a maturity date of more than one year from the date of purchase are stated at fair value and investments with a maturity date of one year or less from the date of purchase are stated at amortized cost. Deposit and investment instruments include certificates of deposit, savings accounts, money market funds, Virginia State Non-Arbitrage Program (the "SNAP"), bankers' acceptances, corporate notes, commercial paper, the Commonwealth of Virginia Local Government Investment Pool (the "LGIP"), the Virginia Investment Pool Trust Fund (VIP), and United States government securities. Investments are generally on deposit with banks and savings and loan institutions and are collateralized under the provisions of the Virginia Security for Public Deposits Act, Section 2.1-359 et seq (the "SPDA"). Securities are held in safekeeping by the respective financial institutions.

Capital assets

Capital assets include intangible assets related to the acquisition of passenger rail corridors, primarily the I-95 Corridor, construction-in-progress for rail infrastructure improvements, the Authority's website, the Staples Mill Station parking lot, and leasehold improvements to the office suite. The Authority capitalizes tangible property of \$5,000 or more per unit with an expected useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized and are expensed currently.

Capital assets are reported at cost, net of accumulated depreciation. Contributed assets are valued at acquisition value at the date of receipt. When capital assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and the gains or losses are reflected in the results of operations. Depreciation is determined over estimated useful lives using the straight-line method. Certain intangible assets and land have indefinite useful lives and will not be depreciated. The estimated useful lives of capital assets are as follows:

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

| | |
|-----------------------------------|-------------|
| Buildings | 40 years |
| Infrastructure | 40 years |
| Equipment | 5 years |
| Improvements Other Than Buildings | 20 years |
| Intangible Assets | 5-200 years |

Accrued Annual Leave

Employees accrue paid-time off (“PTO”) each pay period based on number of years of service. PTO is paid time away from work that can be used for vacation, personal time, personal illness, or to care for dependents. PTO eligibility is determined by the month in which employment begins. Employees receive a pro-rated amount of PTO covering the amount of time left in the year. Rehired employees who return to work within 12 months continue with their previous years of service as it pertains to annual PTO days. Rehired employees that return to work after 12 months start with zero years of service.

Unused accrued PTO is paid to employees upon resignation, retirement, permanent disability, or other termination of employment, provided the employee has supplied proper and timely notice of such action and has more than six months of service. The Authority has established maximums for annual carryforward balances and for maximum payment of unused balances based on years of service. Exceptions may be granted in rare circumstances when employees have not been able to use PTO due to work demands over a substantial period of time.

Accrued leave reported in the Statement of Net Position is based on employees’ hourly rates multiplied by their PTO balances at June 30, 2021.

Virginia Retirement System (the “VRS”) Pensions and Other Postemployment Benefits (the “OPEB”)

Authority employees participate in VRS’s Plan 1, Plan 2, and Hybrid retirement plans. Members earn one month of service credit for each month they are employed and for which they and the Authority pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined by the *Code of Virginia*. Eligible prior service that may be purchased includes public sector services, active military service, certain periods of leave, and previously refunded service.

For reporting purposes, VRS measures pension and other postemployment benefits as of the prior fiscal year – June 30, 2020 in this case. For this reason, pension and other postemployment benefit information for the Authority are included in the amounts reported by the DRPT as of June 30, 2021. In the future, for purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority’s plans and the additions to/deductions from the Authority’s plans’ net fiduciary position will be determined on the same basis as reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position represents the residual interest in the Authority’s assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of three sections: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties by enabling legislation.

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Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and changes in net position during the reporting period. Significant items subject to such estimates include the valuation allowance for receivables, capital assets, and obligations related to employee benefits. Actual results could differ from those estimates and assumptions.

Note 3—Cash and cash equivalents

The Authority is governed by the Virginia Security for Public Deposits Act and the Investment of Public Funds Act. The deposits held and reported at carrying value are shown below:

| Type | 2021 Carrying Value |
|--|--------------------------------|
| Demand deposits | \$ 7,798,907 |
| Local Government Investment Pool | 224,252,713 |
| Total cash and cash equivalents | <u>\$ 232,051,620</u> |

Upon the creation of the Authority, the Commonwealth of Virginia's Department of Accounts created a designated Commonwealth fund for the Authority to utilize for operations until a banking relationship was established. \$302.7 million of CRF monies were transferred into the newly created fund in the Commonwealth's financial system. This fund was utilized by the Authority from July 1, 2020 to June 22, 2021. The Treasurer of Virginia managed investments of the available cash balance within the Commonwealth fund. Prior to June 23, 2021, a portion of the cash balance was invested in the State Treasury's securities lending program.

GAAP requires the costs of securities lending transactions (borrower rebates and agent fees) be reported as expenditures or expenses in the operating statement and does not allow those fees to be netted with the interest revenue. For the year-ended, \$24,267 was recognized as interest income and \$6,886 was recognized as interest expense related to securities lending transactions.

A banking relationship was established by the Authority in May 2021, and the Authorities monies were transferred out of the Commonwealth fund into the Authority's operating account.

On May 24, 2021, the Authority's Board authorized the investment of available cash into the Commonwealth's LGIP portfolio. The Authority made three purchases resulting in a \$224.3 million investment in LGIP, as of June 30, 2021.

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Custodial credit risk and concentration of investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$7,798,907 at June 30, 2021, which was fully insured by depository insurance or secured with collateral held by the Authority's agent in its name. Amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation (the "FDIC"), due to exceeding the \$250,000 financial institutions limit, were fully collateralized in accordance with the SPDA. Under the SPDA, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the SPDA and for notifying local governments of compliance by banks. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool.

The LGIP is an externally managed investment pool that is not registered with the Securities Exchange Commission, but is managed in accordance with GAAP. Pursuant to 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 their regularly scheduled monthly meetings. The LGIP values portfolio securities by the amortized cost method and on a weekly basis this valuation is compared to current market value to monitor any variance. The fair value of the Authority's position in the pool is the same as the value of the pool shares. Redemptions from the LGIP can be made on any banking day.

All investments, evidenced by individual securities, are registered in the name of the Authority.

Investment interest rate & credit risk

As of year-end, the Authority had no formal investment policy, and the sole investment in LGIP was authorized by the Board. As of September 28, 2021, the Board adopted an investment policy which complies with the Virginia Security for Public Deposits Act and the Investment of Public Funds Act (*Code of Virginia* §2.2-4400 et seq. and §2.2-4500 et seq., respectively).

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Note 4—Capital assets

A summary of changes in capital assets for the Authority follows:

| | Balances, July 1, 2020 | Increases | Decreases | Balances, June 30, 2021 |
|---------------------------------------|-----------------------------------|------------------|------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Intangible Asset I-95 Corridor | \$ - | \$ 535,438,037 | \$ - | \$ 535,438,037 |
| Land | - | 2,527,206 | - | 2,527,206 |
| Construction in progress | - | 7,299,894 | - | 7,299,894 |
| Other non-depreciable assets | - | 502,728 | - | 502,728 |
| Total non-depreciable | - | 545,767,865 | - | 545,767,865 |
| Capital assets being depreciated: | | | | |
| Facilities | - | 3,920,066 | - | 3,920,066 |
| Leasehold improvements | - | 83,741 | - | 83,741 |
| Total depreciable | - | 4,003,807 | - | 4,003,807 |
| Less accumulated depreciation for: | | | | |
| Facilities | - | - | - | - |
| Leasehold improvements | - | - | - | - |
| Total accumulated depreciation | - | - | - | - |
| Depreciable capital assets, net | - | 4,003,807 | - | 4,003,807 |
| Capital assets, net | \$ - | \$ 549,771,672 | \$ - | \$ 549,771,672 |

The Staples Mill parking lot facilities were contributed to the Authority on June 29, 2021 at book value, which approximated acquisition value. Additionally, the Authority occupied the offices late in June of 2021. Therefore, no depreciation has been recorded for these assets during the fiscal year ended June 30, 2021.

During the past year, the Commonwealth, acting through the DRPT, completed efforts to purchase certain rail capacity, right-of-way, and rail infrastructure from CSXT. The Comprehensive Rail Agreement (the "CRA") between DRPT and CSXT was finalized on March 26, 2021. As certain condition precedents were not finalized until April 14th, the first of three contractual payments was made on that date to CSXT using Authority funding. As allowed by Section 1.6 of the CRA, the Authority formally assumed the underlying assets and liabilities resulting from this agreement at its May 24, 2021 Board meeting.

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The CRA outlines the required payments, passenger rail service easements, and rail segment asset transfer options. The required contractual payments are as follows:

| | |
|-------------------|---------------|
| April 14, 2021 | \$200 million |
| November 30, 2021 | \$200 million |
| November 30, 2022 | \$125 million |

The two future payments must be made regardless of the acceptance of Segments 2 and 3. The installment payments do not correlate to the value of the offered segments. The rail segments are as follows:

- Segment 1 (I-95 Corridor): approximately one-half of the 144-mile rail corridor from just inside Washington, DC to just south of Petersburg, VA with passage through Richmond, VA by way of Main Street Station.
- Segment 2 (S-Line): 75-mile rail corridor from just south of Petersburg, VA to Ridgeway, NC (acceptance date – November 30, 2022).
- Segment 3 (Buckingham Branch): east-west 164-mile CSXT line from Doswell, VA to Clifton Forge, VA operated by Buckingham Branch Railroad through a lease (acceptance date – November 30, 2021).

At this time, the agreement provided the Authority with a permanent passenger rail service easement in the I-95 rail corridor owned by CSXT. Survey work is currently being performed to determine the nature of the assets (land, track, bridges, rail infrastructure) associated with the I-95 Corridor right-of-way. As that work progresses, deeds of confirmation will allow for the fee simple ownership of the right of way and rail infrastructure to pass to the Authority. Additionally, survey work for Segments 2 and 3 is being performed to determine if the Authority will accept these segments.

At June 30, 2021, the allocation of rail infrastructure assets obtained in Segment 1 was not determinable. The purchase is recorded as an intangible asset until the survey work is completed. In accordance with the CRA, the survey and titling work must be completed by June 30, 2024 for all three segments. At that time, if the surveys are successful, any assets will be converted from an intangible to fee simple land and infrastructure ownership. Subsequently, the fixed asset elements will be known and the I-95 intangible asset will be allocated to the asset components accordingly. The fixed assets will then be depreciated over their respective useful lives.

Note 5—Long-term obligations

Following is a summary of long-term obligations of the Authority:

| | Balance, July 1, 2020 | Additions | Reductions | Balance, June 30, 2021 | Current portion |
|-------------------------|----------------------------------|------------------|-------------------|-----------------------------------|----------------------------|
| Due to CSXT | \$ - | \$525,000,000 | \$(200,000,000) | \$325,000,000 | \$200,000,000 |
| Compensated absences | \$ - | \$ 71,883 | \$ - | \$ 71,883 | |

The Authority's long-term obligations consists of a contractual obligation in the amount of \$125 million to be paid to CSXT on November 30, 2022 in accordance with the CRA. All employees of the Authority are entitled to leave in accordance with Authority's policy. At termination or retirement, employees are paid for unused accrued leave. The Authority has accrued \$71,883 for compensated absences as of June 30, 2021. These liabilities are recorded in accrued liabilities on the Statement of Net Position. Compensated absences will include current and long-term

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amounts in subsequent years when historical data is available.

Note 6—Contingencies

From time to time, the Authority may be a defendant in litigation and claims which are incidental to its operations. As of June 30, 2021, there are no pending or threatened litigation and claims against the Authority.

Note 7—Commitments

At June 30, 2021, the Authority had capital grant commitments outstanding of \$78.6 million and other contractual commitments of \$33.7 million, both net of expenses incurred. The Authority also has \$26.7 million of funding committed to reimburse the DRPT for expenses related to grants managed by DRPT.

Note 8—Uncertainties

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the outbreak and spread of a novel strain of coronavirus ("COVID-19"). Following this, on March 16th, United States' guidelines were issued to restrict discretionary travel, which greatly impacted the rail passenger totals during the fiscal year.

After a sharp decline in ridership beginning in mid-March 2020 and restrictions on travel, service to and from Richmond's Staples Mill Station was suspended in March 2020. On September 27, 2021 this service was resumed and included the extension to Main Street Station. At this time, service levels provided in Virginia have returned to pre-pandemic levels.

As there is still a significant level of uncertainty associated with the pandemic, the Authority continues to actively monitor developments and will take steps to respond accordingly. The longer-term effects of the COVID-19 pandemic on the Authority's operations and financials remain uncertain.

Note 9—Subsequent events

On August 2, 2021, a design engineering contract was executed between VPRA and CSXT for services through the final design phase for the Alexandria Fourth Track project with an anticipated scope of \$11,890,260.

On September 28, 2021, the VPRA Board approved an inaugural Investment Policy enabling the Authority to actively manage the available cash within the confines of the policy requirements. The policy complies with the Virginia Security for Public Deposits Act and the Investment of Public Funds Act (*Code of Virginia* §2.2-4400 et seq. and §2.2-4500 et seq., respectively).

**Report of Independent Auditor 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 Board of Directors
Virginia Passenger Rail Authority
Richmond, Virginia

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 the Virginia Passenger Rail Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Richmond, Virginia
October 22, 2021