COMMONWEALTH of VIRGINIA

Virginia Passenger Rail Authority

DJ Stadtler
Executive Director

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November 22, 2022

The Honorable G. Paul Nardo
Clerk of the Virginia House of Delegates
Post Office Box 406
Richmond, Virginia 23218

The Honorable Susan Clarke Schaar
Clerk of the Virginia Senate
Post Office Box 396
Richmond, Virginia 20122

Dear Mr. Nardo and Ms. Schaar,

I am pleased to submit the annual audited financial statements of the Virginia Passenger Rail Authority (VPRA) for your review. The VPRA received an unqualified opinion with no compliance findings for the years ending June 30, 2022 and 2021. A great deal has been accomplished in the past year, including advancement of the Transforming Rail in Virginia initiative as well as standing up a new entity. We are particularly encouraged by the post-pandemic ridership on the Virginia passenger trains that reached record levels beginning this past summer.

I also want to take a moment to say thank you to the members of the General Assembly for their efforts to revitalize transportation in Virginia. We will match your faith in committing such a large investment in passenger rail by delivering on these critical rail transportation initiatives.

If you have any questions or comments about this report, please do not hesitate to contact me.

Sincerely,

DJ Stadtler

VIRGINIA PASSENGER RAIL AUTHORITY

A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2022 and 2021

VIRGINIA PASSENGER RAIL AUTHORITY

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
TABLE OF CONTENTS

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

Board

Officers

Chair	Jennifer DeBruhl
Vice-Chair	Sharon Bulova
Treasurer	Patricia Doersch
Secretary	Jim Spore

Members

Victor Cardwell
John S. Delandro III
Thelma Drake
Jay Fisette
Roderick Hall
Charles “Wick” Moorman
Cynthia Moses-Nedd
Charles W. “Charlie” Payne
John C. Watkins
Rich Dalton, non-voting
Bruno Maestri, non-voting

Management

Executive Director	DJ Stadtler
Chief Financial Officer	Steve Pittard
Chief Operating Officer	Michael McLaughlin
Chief Administrative Officer	Joan Panik
General Counsel	Michael Westermann

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

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 years ended June 30, 2022 and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022 and 2021, and the respective changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 (the "Specifications"). Our responsibilities under those standards and specifications are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the Commonwealth of Virginia, as of June 30, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards *Government Auditing Standards*, and the Specifications will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, the *Government Auditing Standards*, and the Specifications, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Information

Management is responsible for the other information included in the annual report. The listing of Principal Officials and Key Personnel is not included in the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, 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 Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Richmond, Virginia
November 17, 2022

Management's Discussion and Analysis (the "MD&A") of the activities and financial performance of the Virginia Passenger Rail Authority (the "Authority"), a component unit of the Commonwealth of Virginia, provides the reader with an introduction and overview to the basic financial statements of the Authority, as of and for the fiscal years ended June 30, 2022 and 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. CRF funds distributed in the current year were $172.9 million, a 77% increase from the prior year.

- During the Authority's second year of operations, the total net position increased $328.9 million to end the fiscal year with a net position of $794.7 million.

- The Authority ended the fiscal year with over $1.0 billion of assets, a $242.6 million increase from its initial funding year. Cash, cash equivalents, and investments which will be utilized to fund capital projects comprised $405.9 million of the Authority's assets.

- Operating income from passenger rail services covered 81% of the train operating expenses and Authority administrative costs during the current year, an increase from 69% for the prior year driven by a $30.1 million increase in revenues.

- For the year ended June 30, 2022, nonoperating revenues were $358.2 million from Commonwealth sources, Funding Partners, and interest income. $185.7 million of these revenues were retained as current assets as of year-end.

- During the year, $237.7 million of land and assets were reclassified from an intangible asset to record the Buckingham Branch rail corridor accepted on November 30, 2021. On the same day, the Authority made the second installment payment of $200.0 million to CSX Corporation ("CSXT").

- In 2022 the Authority completed efforts to purchase 28.5 miles of rail capacity, right-of-way, and rail infrastructure from Norfolk Southern for $38.2 million.

- For the year ended June 30, 2022, additions to construction-in-progress for the I-95 Corridor capital projects were $14.0 million, ending the period with a total of $21.3 million.

<u>Financial Statements</u>

The Authority's financial statements are prepared on an 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.

FINANCIAL ANALYSIS

Statements of Net Position
Over time, net position may serve 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, 2022 and 2021 is shown below.

Condensed Statements of Net Position

	2022	2021	Increase (Decrease)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	$ 428,759,654	$ 243,057,114	$ 185,702,540
Capital and Other Noncurrent Assets, Net	614,950,630	558,630,502	56,320,128
Total Assets	1,043,710,284	801,687,616	242,022,668
Deferred Outflows of Resources	604,086	-	604,086
Total Assets and Deferred Outflows of Resources	**1,044,314,370**	**801,687,616**	**242,626,754**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities	149,525,227	210,833,373	(61,308,146)
Long-term Liabilities	100,031,434	125,071,883	(25,040,449)
Total Liabilities	249,556,661	335,905,256	(86,348,595)
Deferred Inflows of Resources	92,289	-	92,289
Total Liabilities and Deferred Inflows of Resources	**249,648,950**	**335,905,256**	**(86,256,306)**
NET POSITION:			
Net Investment in Capital Assets	470,191,756	224,771,672	254,457,536
Unrestricted	324,473,664	241,010,688	74,425,524
Total Net Position	**$ 794,665,420**	**$ 465,782,360**	**$ 328,883,060**

Net position increased by $328.9 million, or 71%, during fiscal year 2022 primarily due to the collection of $410.6 million of operating and non-operating revenues, offset by an $86.3 million reduction in liabilities.

Total Assets increased $242.6 million or 30%, primarily due to an increase in cash, cash equivalents and investments of $173.9 million and an increase in capital assets of $58.2 million. The increase in total assets is the result of $358.2 million of nonoperating revenues from Commonwealth sources and funding partners. These assets will be utilized to fund the Authority's portfolio of capital projects.

Current liabilities decreased by $61.3 million or 29% primarily due to the payment of the $200.0 million second installment to CSXT on November 30, 2021. Offsetting this decrease, the remaining $125.0 million installment payment due to CSXT, was reclassified from long-term liabilities to current liabilities.

Long-term liabilities decreased $25.0 million, or 20%, primarily due to the reclassification of the $125.0 million installment payment to CSXT, which was largely offset by the increase in unearned revenues of $95.9 million. The unearned revenues at June 30, 2022 primarily consist of $48.5 million of contributions from Amtrak and $46.4 million of Commonwealth of Virginia contributions.

Capital Acquisitions and Construction Activities

During the current year, capital assets increased $59.9 million, or 11% primarily related to the purchase of the Virginian Line ("V-Line") increasing capital assets by $38.2 million. Additionally, construction-in-progress increased $14.0 million, or 192% from the continued investment in capital projects. During the year, $237.7 million of land and assets were reclassified from an intangible asset to record the Buckingham Branch rail corridor accepted on November 30, 2021.

I-95 Corridor
In 2021 the Commonwealth, acting through the Department of Rail and Public Transportation ("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 14, 2021, 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 from DRPT.

The CRA outlined three required payments and three rail asset segments. The installment payments do not correlate to the value of the offered segments. The installment payments are made regardless of the acceptance of the segments.

The required contractual payments are as follows:

April 14, 2021	$200 million
November 30, 2021	$200 million
November 30, 2022	$125 million

The rail segments and conveyance terms are as follows:

Segment	Description	Conveyance Terms
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.	The agreement provided the Authority with a permanent passenger rail service easement in the I-95 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. In accordance with the CRA, the survey and titling work must be completed by June 30, 2024.
Segment 2: S-Line	75-mile rail corridor from just south of Petersburg, VA to Ridgeway, NC.	Convey upon acceptance. The latest acceptance date per the CRA is 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.	Conveyance accepted on November 30, 2021.

The purchase price and corresponding transaction costs were capitalized as an intangible asset until fee simple ownership of the assets is obtained at a later date. Based on the asset valuation, the fair value of all assets acquired approximates the acquisition consideration of $525.0 million. Using comparable market data, the value was allocated to the respective asset components (land and rail infrastructure). As the segments are converted to land and rail infrastructure ownership, the determined value will be transferred from an intangible asset to the respective asset classification.

On November 30, 2021, VPRA accepted Segment 3. At that time the allocation of land and rail infrastructure assets obtained in Segment 3 was determinable. The total asset value of Segment 3 was $237.7 million, comprised of $191.9 million of land and $45.8 million of rail infrastructure. As disclosed in Footnote 2, VPRA depreciates rail infrastructure over a 40-year useful life. As the assets acquired in Segment 3 had varying useful lives, a 20-year remaining life was applied to the assets. As of June 30, 2022, $1.3 million of depreciation was recorded for the seven months of ownership of Segment 3.

As of June 30, 2022, the acquisition value for Segment 1 and Segment 2 will remain an intangible asset. The intangible will be converted to land and rail infrastructure once fee simple ownership is conveyed to VPRA.

Western Rail Corridor
In 2022 the Authority completed efforts to purchase 28.5 miles of rail capacity, right-of-way, and rail infrastructure from Norfolk Southern ("NS") for $38.2 million. The agreement between VPRA and NS was finalized on January 10, 2022, and financial close occurred on June 28, 2022. The Authority formally assumed the underlying assets as of the financial close date. The total acquisition cost of the V-line was $40.7 million, comprised of $31.2 million of land and $9.5 million of rail infrastructure.

Construction-in-Progress
Construction-in-progress increased $14.0 million, or 192% from the continued investment in the I-95 Corridor capital projects. The total budget for the capital projects is $3.5 billion, made up of $3.3 billion for the I-95 Corridor and $156.9 million for the Western Rail Corridor. The Authority anticipates placing $1.2 billion of assets in service in fiscal year 2026 and $2.3 billion of assets in service in fiscal year 2030. The Authority's fiscal year 2022 budget included a $51.0 million investment in capital projects during the year, the actual investment was 73% below budget at $14.0 million due to delays completing the I-95 Corridor acquisition caused by the pandemic.

Capital Project	**2022**	**2021**	**Increase**
L'Enfant 4th Track	$ 143,828	$ 90,899	$ 52,929
Long Bridge for Passenger Rail	14,868,318	5,920,711	8,947,607
Alexandria 4th Track	3,111,589	529,439	2,582,150
Franconia to Lorton 3rd Mainline	972,570	126,058	846,512
Franconia-Springfield Bypass	787,255	266,773	520,482
Phase 1 Sidings	286,454	181,721	104,733
Phase 2 Sidings	284,635	184,293	100,342
Newington Bridge	162,544	-	162,544
Route 1 Bridge	116,897	-	116,897
Lorton to Route 1	96,934	-	96,934
Richmond Layover Facility	185,849	-	185,849
Ettrick Station	25,031	-	25,031
New River Valley Platform & Track	204,752	-	204,752
St. Julian's Yard Amtrak Service Facility	38,977	-	38,977
Total Construction-in-Progress	**$ 21,285,633**	**$ 7,299,894**	**$ 13,985,739**

Statements of Revenues, Expenses and Changes in Net Position

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, 2022, as compared to the fiscal year ended June 30, 2021 is shown below.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021	Increase (Decrease)
Operating Revenues	$ 52,355,858	$ 22,232,251	$ 30,123,607
Operating Expenses	(64,712,839)	(32,167,160)	(32,545,679)
Depreciation and Amortization	(1,659,707)	-	(1,659,707)
Net Operating Loss	**(14,016,688)**	**(9,934,909)**	**(4,081,779)**
Nonoperating Revenues (Expenses):			
Transfer In: Commonwealth of Virginia	-	320,002,684	(320,002,684)
Commonwealth Rail Fund	172,852,567	97,760,332	75,092,235
Commonwealth Priority Transportation Fund	112,810,942	74,692,622	38,118,320
Contributions from Funding Partners	1,543,658	-	1,543,658
Other Commonwealth of Virginia Contributions	70,205,632	-	70,205,632
Interest Income	811,708	2,066,058	(1,254,350)
Other Nonoperating Expense	(15,324,759)	(18,804,427)	3,479,668
Total Nonoperating Revenues, net	342,899,748	475,717,269	(132,817,521)
Change in Net Position	**328,883,060**	**465,782,360**	**(136,899,300)**
Net Position, beginning of the year	465,782,360	-	465,782,360
Net Position, ending	**$ 794,665,420**	**$ 465,782,360**	**$ 328,883,060**

Total net position increased $328.9 million, or 71% in the current fiscal year primarily due to nonoperating revenues from Commonwealth funding sources and contributions from funding partners. The net operating loss increased $4.1 million, or 41% primarily as a result of contracted passenger service costs and administration costs increasing more than the $30.1 million increase in passenger revenues. This increase resulted from the return of daily service that had been halted after the onset of the pandemic.

Operating Revenues

Operating revenues increased $30.1 million, or 135% in the current fiscal year. The increase is attributable to ridership returning to pre-pandemic levels, superseding 2021 ridership by 121%.

2021 Ridership	2022 Ridership	Ridership Increase	% Change
333,684	736,021	402,337	121%

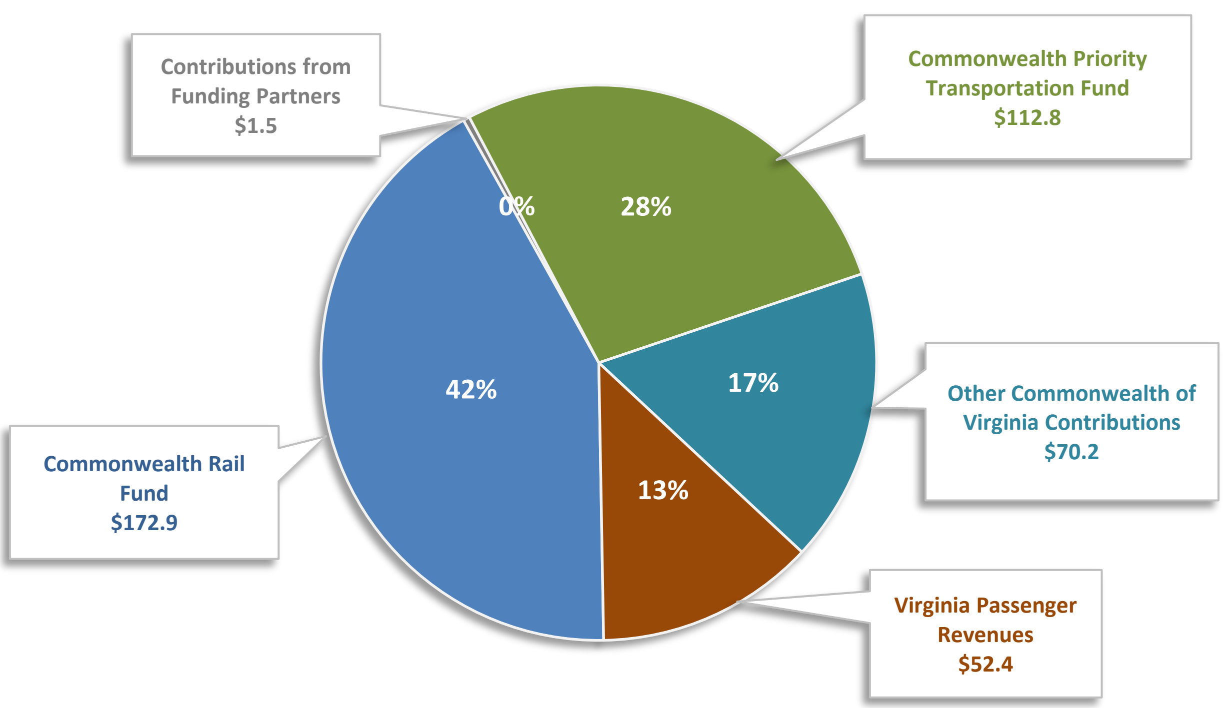
Operating Expenses

Operating expenses increased $32.5 million, or 101% in the current fiscal year. Contracted passenger service costs accounted for $29.9 million of this increase. In the prior 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 contracted passenger service, reducing the Authority's operating costs by $25.3 million. In the current year, the amount of federal funding applied to contracted passenger service dropped to $11.6 million. Additionally, the Richmond passenger train service, which had been suspended during fiscal year 2021, was resumed in September 2021, increasing the operating costs by $4.1 million. Additionally, the North-East Corridor Through Charge increased $11.0 million as a result of the ridership increase during the fiscal year.

Net Nonoperating Revenues

Net nonoperating revenues decreased $132.8 million, or 28%. During the fiscal year, the Authority recognized $358.2 million of nonoperating revenues from Commonwealth sources and funding partners. The Authority's dedicated CRF revenue stream increased $75.1 million, or 77% in the current year due to the state's strong revenue collection. In accordance with the Commonwealth Transportation Board allocations, Priority Transportation Funds increased $38.1 million, or 51%. The Authority has various contractual funding agreements with defined contributions to be used for specified purposes. In accordance with the funding agreement, Amtrak contributed $50.0 million, of which $1.5 million was recognized as earned while $48.5 million was recorded as an unearned liability. The unearned portion of the Amtrak contribution will be recognized as the funds are utilized on the qualified projects in accordance with the executed agreement.

MAJOR SOURCES OF REVENUES FOR THE YEAR ENDED JUNE 30, 2022
(Total $409.8M)



Economic Factors and the Fiscal Year 2023 Budget

The Authority expects ridership to increase in the coming year as the pandemic recovery continues and demand for travel returns. Additionally, the population growth in Virginia will continue to support long-term demand for intercity passenger rail service.

The Authority's CRF revenues are forecasted to be $184.4 million, a 7% increase over the current year. Passenger revenues are expected to increase as a result of two new daily roundtrip trains that began in July 2022. Additional sources of funding will be available in fiscal year 2023 from federal, state, and funding partner contributions, although the amounts received will continue to vary from year to year. Additionally, the impact of supply chain disruption and inflation on the Authority's capital project budgets are currently being assessed.

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, 919 East Main Street, Suite 2400, Richmond, Virginia 23219.

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENTS OF NET POSITION
JUNE 30, 2022 and 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2022**	**2021**
Current Assets:		
Cash and Cash Equivalents	$ 376,129,360	$ 232,051,620
Accounts Receivable	21,438,492	11,005,494
Investments	29,820,527	-
Prepaid Expenses and Other	1,371,275	-
Total Current Assets	**428,759,654**	**243,057,114**
Noncurrent Assets:		
Credit Receivable	6,941,139	8,858,830
Net Other Postemployment Benefits Asset	10,170	-
Capital Assets:		
Rail Infrastructure	59,265,261	3,920,066
Land	225,616,088	2,527,206
Construction in Progress	21,285,633	7,299,894
Intangible Asset: I-95 Corridor	299,673,200	535,438,037
Lease Asset	3,770,113	-
Other Capital Assets	34,773	586,469
Total Capital Assets	609,645,068	549,771,672
Less Accumulated Depreciation and Amortization	(1,645,747)	-
Total Capital Assets, net	607,999,321	549,771,672
Total Noncurrent Assets	**614,950,630**	**558,630,502**
Deferred Outflows of Resources:		
Pension	505,101	-
Other Postemployment Benefits	98,985	-
	604,086	**-**
Total Assets and Deferred Outflows of Resources	**1,044,314,370**	**801,687,616**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts Payable	7,503,879	1,253,869
Current Portion of Lease Obligations	91,884	-
Other Accrued Liabilities	16,929,464	9,579,504
Contractual Obligations - I-95 Corridor	125,000,000	200,000,000
Total Current Liabilities	**149,525,227**	**210,833,373**
Noncurrent Liabilities:		
Contractual Obligations - I-95 Corridor	-	125,000,000
Unearned Revenues	95,896,328	-
Net Pension Liability	107,004	-
Net Other Postemployment Benefits	22,167	-
Lease Obligations	3,678,229	-
Compensated Absences	327,706	71,883
Total Noncurrent Liabilities	**100,031,434**	**125,071,883**
Total Liabilities	**249,556,661**	**335,905,256**
Deferred Inflows of Resources:		
Pension	79,808	-
Other Postemployment Benefits	12,481	-
Total Deferred Inflows of Resources	**92,289**	**-**
Net Position:		
Net Investment in Capital Assets	470,191,756	224,771,672
Unrestricted	324,473,664	241,010,688
Total Net Position	**794,665,420**	**465,782,360**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 1,044,314,370**	**$ 801,687,616**

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022 and 2021

	2022	2021
Operating Revenues		
Virginia Passenger Revenues	$ 52,355,858	$ 22,232,251
Total Operating Revenues	**52,355,858**	**22,232,251**
Operating Expenses		
Amtrak Operating	52,642,527	22,721,825
Amtrak Capital	5,408,470	6,141,541
Amtrak Marketing	989,782	631,426
Office/General Administrative Expenses	5,672,060	2,672,368
Total Operating Expenses	**64,712,839**	**32,167,160**
Operating Loss Before Depreciation and Amortization	**(12,356,981)**	**(9,934,909)**
Depreciation and Amortization	(1,659,707)	-
Net Operating Loss	**(14,016,688)**	**(9,934,909)**
Nonoperating Revenues (Expenses)		
Transfer In: Commonwealth of Virginia	-	320,002,684
Commonwealth Rail Fund	172,852,567	97,760,332
Commonwealth Priority Transportation Fund	112,810,942	74,692,622
Contributions from Funding Partners	1,543,658	-
Other Commonwealth of Virginia Contributions	70,205,632	-
Interest Income	811,708	2,066,058
Capital Grants	(14,998,347)	(18,804,427)
Unrealized Loss on Investment	(236,182)	-
Other Nonoperating Expense	(90,230)	-
Total Nonoperating Revenues, net	**342,899,748**	**475,717,269**
Change in Net Position	**328,883,060**	**465,782,360**
Net Position, beginning of the year	465,782,360	-
Net Position, ending	**$ 794,665,420**	**$ 465,782,360**

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Receipts from customers	$ 52,355,858	$ 22,232,251
Payments to employees	(3,525,242)	(128,823)
Payments to suppliers	(61,318,200)	(29,653,199)
Net cash used in operating activities	(12,487,584)	(7,549,771)
Cash flows from non-capital and related financing activities:		
Noncapital contributions and grants	441,636,906	466,273,062
Capital grants and assistance	(5,551,577)	(13,538,506)
Net cash provided by non-capital and related financing activities	436,085,329	452,734,556
Cash flows from capital and related financing activities:		
Payment of I-95 Corridor obligation	(200,000,000)	(200,000,000)
Acquisition of capital assets	(50,404,025)	(15,070,203)
Net cash used in capital and related financing activities	(250,404,025)	(215,070,203)
Cash flows from investing activities:		
Purchase of Investments	(30,056,708)	-
Interest received and other income	940,728	1,937,038
Net cash provided by (used in) investing activities	(29,115,980)	1,937,038
Net increase in cash and cash equivalents	144,077,740	232,051,620
Cash and cash equivalents, beginning of year	232,051,620	-
Cash and cash equivalents, end of year	$ 376,129,360	$ 232,051,620

The accompanying notes to the financial statements are an integral part of these statements.

VIRGINIA PASSENGER RAIL AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF VIRGINIA
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2022 and 2021

	2022	2021
Reconciliation of operating loss to net cash used in operating activities:		
Loss from operations	$ (14,016,688)	$ (9,934,909)
Adjustments to reconcile operating loss from operations		
to net cash used in operating activities:		
Depreciation and amortization	1,659,707	-
Decrease (increase) in operating assets:		
Accounts receivable	1,914,157	-
Prepaid expenses	(1,323,838)	-
OPEB	(10,170)	-
Deferred outflows of resources – pension	(505,101)	-
Deferred outflows of resources – OPEB	(98,985)	-
Increase (decrease) in operating liabilities:		
Pension liability	107,004	-
OPEB liability	22,167	-
Deferred inflows of resources - pension	79,808	-
Deferred inflows of resources - OPEB	12,481	-
Accounts payable	1,189,178	61,751
Accrued liabilities	(1,773,127)	2,251,504
Compensated absences	255,823	71,883
Net cash used in operating activities	$ (12,487,584)	$ (7,549,771)

	2022	2021
Schedule of Noncash Capital Activities:		
Capital assets acquired through a transfer-in from the Commonwealth	1,063,602	6,447,272
Capital assets acquired through accounts payable	6,252,598	-
Capital assets acquired through contractual obligations	-	325,000,000

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Virginia Passenger Rail Authority (the "Authority" or the "VPRA") 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.

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 years ended June 30, 2022, and 2021, the Authority recorded $172.9 million and $97.8 million of CRF revenue, respectively.

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 to the Authority is recorded as a transfer in from the Commonwealth in Fiscal Year 2021.

The Authority's Board is appointed by the Commonwealth. Based on this and other factors, 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 project funding partners.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Financial Reporting Model</u>

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 set 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:

- Statements of Net Position – The Statements 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.
- Statements of Revenues, Expenses, and Changes in Net Position – The Statements of Revenues, Expenses, and Changes in Net Position is designed to display the financial activities of the Authority.
- Statements of Cash Flows – The Statements 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.

<u>Measurement focus and basis of accounting</u>

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. 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.

Operating revenues and expenses

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, depreciation on capital assets and amortization. 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.

Revenue recognition

Contributions from the Commonwealth and from project funding partners, National Passenger Railroad Corporation (“Amtrak”) and Virginia Railway Express (“VRE”), designated for payment of specific capital projects are recognized at the time the capital outlay is incurred. Contributions provided to fund capital assets are included as Nonoperating Revenues in the Statements of Revenues, Expenses and Changes in Net Position when the corresponding expense is incurred. Any contributions received at year-end in excess of the related capital expenses incurred are recorded as unearned revenue. Additionally, accounts receivables are recorded for capital outlays incurred that are contractually to be paid by project funding partners if related unearned revenue is not sufficient.

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 obligations of foreign sovereign governments, 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, purchased rail corridor assets, construction-in-progress for rail infrastructure improvements, an intangible right-to-use lease asset for office space, and other assets related to the organizational activities of the Authority. 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 and amortization. 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 or amortization are removed from the accounts and the gains or losses are reflected in the results of operations. Depreciation and amortization is determined over estimated useful lives using the straight-line method. Certain intangible assets and land have indefinite useful lives and are not depreciated. The estimated useful lives of capital assets are as follows:

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

Compensated absences

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. The Authority has established maximums for annual carryforward 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 Statements of Net Position as compensated absences is based on employees' hourly rates multiplied by their PTO balances at June 30, 2022 and 2021.

Accrued liabilities

Accrued liabilities are recorded for expenses incurred by the Authority but not yet paid and expenses incurred by grantees but not yet presented for reimbursement. Accrued liabilities recorded at June 30, 2022 and 2021 are based on actual costs or the best available estimate.

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 two sections: net investment in capital assets and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation and amortization, 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.

Estimates

The preparation of financial statements in conformity with GAAP require 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.

Prepaid items

Prepaid items represent transactions where cash outflow occurred as of June 30, 2022, but the economic benefits of the transactions had not yet been realized, therefore, not meeting the requirements for expense recognition. The Authority's prepaid items include administrative items such as insurance premiums and subscriptions paid for annually but expensed monthly and advance payments to the Washington Metropolitan Area Transit Authority and Amtrak.

Pensions and other postemployment plans

Authority employees participate in the Virginia Retirement System's ("VRS") 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 ("OPEB") as of the prior fiscal year – June 30, 2021 in this case. 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.

A. Pensions

The VRS State Employee Retirement plans are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plans and the additions to/deductions from the VRS State Employee Retirement Plan's 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.

B. Group Life Insurance Program ("GLI")

The VRS GLI is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI was established pursuant to § 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 group life insurance 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.

C. State Employee Health Insurance Credit Program ("HIC")

The VRS State Employee HIC is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee HIC was established pursuant to § 51.1-1400 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 State Employee HIC is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB, and the State Employee HIC OPEB expense, information about the fiduciary net position of the VRS State Employee HIC and the additions to/deductions from the VRS State Employee HIC's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

D. VRS Virginia Sickness and Disability Insurance Program ("VSDP")

The VRS VSDP is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The VSDP was established pursuant to §51.1-1100 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 VSDP is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees. For purposes of measuring the net VSDP OPEB asset, deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB, and VSDP OPEB expense, information about the fiduciary net position of the VRS VSDP OPEB Plan and the additions to/deductions from the VRS VSDP OPEB Plan'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.

Deferred outflows/inflows of resources

The Statements of Net Position reports a separate section for deferred outflows of resources in addition to assets. The Authority reports deferred outflows related to pension and OPEB obligations in the Statements of Net Position. Deferred outflows for pension and OPEB result from changes in actuarial assumptions, change in the proportionate shares and VRS OPEB programs, actual economic experience that is different than estimated, and contributions made subsequent to the measurement date. Deferred outflows of resources for contributions made subsequent to the measurement date are expensed in the next fiscal year. All deferred outflows of resources are amortized over the remaining service life of all plan participants, including retirees whose remaining service life is zero.

The Statements of Net Position reports a separate section for deferred inflows of resources in addition to liabilities. Deferred inflows of resources in the Statements of Net Position represent amounts related to pensions and OPEB such as actuarial losses resulting from a difference in expected and actual experience, investment results and changes in actuarial assumptions and changes in proportionate shares. Changes in deferred inflows of resources are amortized over the remaining service life of all plan participants with the exception of investment experience amounts, which are deferred and amortized over a closed five-year period.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2022 and 2021, cash, cash equivalents and investments consisted of the following, at cost, which approximates fair value:

	2022 Carrying Value	2021 Carrying Value
Demand Deposits	$ 297,146	$ 7,798,907
LGIP	375,832,214	224,252,713
LGIP – Extended Maturity ("LGIP – EM")	29,820,527	-
Total Cash and Cash Equivalents	$ 405,949,887	$ 232,051,620

Deposits
Deposits with banks are covered by the Federal Deposit Insurance Corporation ("FDIC") and collateralized in accordance with the SPDA, Section 2.2-4400 et seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and, depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits at June 30, 2022 and 2021, are considered fully collateralized.

Investments
Statutes authorize local governments and other public bodies to invest in obligations of the United States or its agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development , the Asian Development Bank, the African Development Bank, obligations of foreign sovereign governments, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements and the State Treasurer's LGIP.

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

Credit Risk
The investment policy specifies credit quality for certain types of investments, as described below, in accordance with the Code of Virginia, and the policy specifies the qualifications for institutions providing depository and investment services.

U.S. Treasury Obligations. Bills, notes, and any other obligation or securities issued by or backed by the full faith and credit of the United States Treasury. The final maturity shall not exceed a period of five (5) years from the time of purchase.

Federal Agency/Government Sponsored Enterprise Obligations. Bonds, notes, and other obligations of the United States, and securities guaranteed by any federal government agency or instrumentality or government sponsored enterprise, with a rating of at least "AA" (or its equivalent) by at least two of the following Nationally Recognized Statistical Rating Organizations ("NRSRO"): Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P"), or Fitch Ratings, Inc. ("Fitch"). The final maturity shall not exceed a period of five (5) years from the time of purchase. Any investment in mortgage-backed securities or collateralized mortgage obligations shall have a weighted average life that does not exceed five (5) years from the time of purchase.

Municipal Obligations.

a) Bonds, notes, and other general obligations of the Commonwealth of Virginia and its agencies, authorities, and political subdivisions upon which there is no default, with a rating of at least AA (or its equivalent) by at least two of the following NRSROs: S&P, Moody's, or Fitch, matures within three (3) years of the date of purchase, and otherwise meets the requirements of Code of Virginia §2.2-4501.

b) Bonds, notes, and other evidences of indebtedness of any political subdivision within the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that within the twenty fiscal years next preceding the making of such investment, such political subdivision has not been in default for more than ninety days in the payment of any part of principal or interest of any debt authorized to be contracted. A rating of at least AA (or its equivalent) by at least two of the following NRSROs: S&P, Moody's, or Fitch, matures within three (3) years of the date of purchase is required

Commercial Paper. "Prime quality" commercial paper, with a maturity of 270 days or less from the date of purchase, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of at least two of the following: P-1 by Moody's, A-1 by S&P, or F1 by Fitch, and that otherwise meets the requirements of Code of Virginia §2.2-4502.

Bankers' Acceptance. Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating from at least two of the following: P-1 by Moody's, A-1 by S&P, or F1 by Fitch.

Corporate Notes. High quality corporate notes with a final maturity from the time of purchase of five (5) years or less and shall have received at least two of the following ratings: A by S&P, A2 by Moody's, or A by Fitch.

Negotiable Certificates of Deposit and Bank Deposit Notes. Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks that meet the following requirements:

a) Notes with maturities or no more than one (1) year from the time of purchase shall have received at least two of the following ratings: A-1 by S&P, P-1 by Moody's, or F1 by Fitch.
b) Notes with maturities exceeding one year and not exceeding five (5) years from the time of purchase shall have received at least two of the following ratings: AA by S&P, Aa2 by Moody's, or AA by Fitch.

Bank Deposits and Non-Negotiable Certificates of Deposit. Demand deposits, time deposits, and other deposits that comply with all aspects of SPDA or with §2.2-4518 with a final maturity no more than two (2) years.

Repurchase Agreements. In overnight repurchase agreements provided that the following conditions are met:

a) The contract is fully secured by deliverable U.S. Treasury and Federal Agency/Government Sponsored Enterprise obligations as described in paragraphs 1 and 2 above, including the maximum maturity of three (3) years, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
b) A Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
c) The securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for VPRA, provided such third party is not the seller under the repurchase agreement;
d) A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority;
e) The counterparty is a:
    i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
    ii. a bank, savings and loan association, or diversified securities broker dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
f) The counterparty meets the following criteria:
    i. Has a long-term credit rating of at least 'AA' or the equivalent from an NRSRO
    ii. Has been in operation for at least 5 years, and
    iii. Is reputable among market participants.

Money Market Mutual Funds (Open-Ended Investment Funds). Shares in open-end, no-load investment funds provided such funds are registered under the Investment Company Act of 1940 and provided that the fund is rated at least AAAm or the equivalent by an NRSRO. The fund should have at least $10 billion in assets managed. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia (§2.2-4508) for political subdivisions.

U.S. Denominated Supranational Agency Bonds. Bonds and other obligations with a final maturity from the time of purchase of five (5) years or less, issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank, and Export Development Canada Bonds. Bonds shall have received at least two of the following ratings: AAA by S&P, Aaa by Moody's, or AAA by Fitch.

LGIP. Investments in this pool are subject to the rules and regulations as set forth by the Virginia Department of the Treasury which manages the pool (§2.2-4602). The CFO shall, on a continual basis, monitor the management and operations of the LGIP.

Virginia State Non-Arbitrage Program's (SNAP) Fund. Investments in this pool are limited to unexpended proceeds from the issuance of bonds, the interest on which is subject to rebate under the provisions of the Tax Reform Act of 1986 (§2.2-4700), and reserve accounts directly related to the issuance of debt or other credit agreement.

Custodial Credit Risk
For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be recovered. All of the Authority's deposits are maintained in accounts collateralized in accordance with the SPDA. The Authority's investment policy provides that securities purchased for the Authority shall be held by the Authority or by the Authority's custodian. If held by a custodian, the securities must be in the Authority's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the Authority. Further, if held by a custodian, the custodian must be a third-party, not a counterparty (buyer or seller) to the transaction. At June 30, 2022 and 2021, the authority did not have any securities held by a custodian.

Interest Rate Risk
In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the maturity of various investment vehicles, as indicated in the chart below. Interest rate risk does not apply to LGIP since it is an external investment pool classified in accordance with GAAP.

Concentration of Credit Risk
In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the maturity of various investment vehicles, as indicated in the chart below. The limitations provided in the investment policy for maximum maturity and percentage of the portfolio for each category of investment are as follows:

Permitted Investment	Portfolio Limit	Issuer Limit
U.S. Treasury Obligations	100%	100%
Federal Agency/GSE Obligations	100%	35%
Municipal Obligations	20%	5%
Commercial Paper	35%	5%
Bankers' Acceptances	15%	5%
Corporate Notes	25%	3%
Negotiable Certificates of Deposit and Bank Deposit Notes	25%	5%
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	10%
Repurchase Agreements	20%	10%
Money Market Mutual Funds	25%	10%
U.S. Denominated Supranational Agency Bonds	20%	5%
LGIP	100%	100%
Virginia SNAP-SNAP Fund (**Proceeds of Tax Exempt Bonds Only**)	100%	100%

At June 30, 2022 and 2021, the Authority had investments of $375,832,214 and $224,252,713, respectively, in the LGIP. The LGIP is an externally managed investment pool that is not registered with the Securities Exchange Commission. 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 classified as cash and cash equivalents and the maturity is less than one year.

At June 30, 2022 and 2021, VPRA had investments of $29,820,527 and $0, respectively, in LGIP – EM, which is an externally managed investment pool that is not registered with the Securities Exchange Commission. Pursuant to the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP-EM and has delegated certain functions to the State Treasurer. The LGIP – EM portfolio is rated AAAf/S1 by S&P. The funds are invested in accordance with Treasury Board investment guidelines and S&P Global Ratings' AAAf/S1 rating criteria. The LGIP – EM portfolio reports its investments at fair value. At June 30, 2022, the weighted average maturity for the portfolio was 0.85 years.

Fair Value Measurement
When applicable, the Authority 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. The three levels of the fair value hierarchy are described below.

Level 1	Valuation based on quoted prices in active markets for identical assets or liabilities.
Level 2	Valuation based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets and liabilities.
Level 3	Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

With regard to fair value measurements, the LGIP - EM portfolio classifies United States Treasury securities in level one of the fair value hierarchy and the remaining investments are classified in level two. VPRA's investment holding in this pool includes both level 1 and level 2 assets. At June 30, 2022, the Authority's investment in LGIP-EM had an unrealized loss of $236,181.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balances July 1, 2021	**Increases**	**Decreases**	**Transfers**	**Balances June 30, 2022**
Capital assets not being depreciated or amortized:					
Intangible asset I-95 corridor	$ 535,438,037	$ 1,424,930	$ -	$ (237,189,767)	$ 299,673,200
Land	2,527,206	31,243,833	-	191,845,049	225,616,088
Construction in progress	7,299,894	13,985,739	-	-	21,285,633
Other non-depreciable assets	502,728	-	-	(502,728)	-
Total non-depreciable	**545,767,865**	**46,654,502**	**-**	**(45,847,446)**	**546,574,921**
Capital assets being depreciated:					
Rail infrastructure	3,920,066	9,518,271	-	45,826,924	59,265,261
Lease Asset	-	3,770,113	-	-	3,770,113
Leasehold improvements	83,741	-	(83,741)	-	-
Other	-	14,251	-	20,522	34,773
Total depreciable	**4,003,807**	**13,302,635**	**(83,741)**	**45,847,446**	**63,070,147**
Less accumulated depreciation or amortization for:					
Rail infrastructure	-	1,581,623	-	-	1,581,623
Leasehold improvements	-	13,960	(13,960)	-	-
Lease Asset	-	58,908	-	-	58,908
Other	-	5,216	-	-	5,216
Total accumulated depreciation or amortization	**-**	**1,659,707**	**(13,960)**	**-**	**1,645,747**
Depreciable assets, net	**4,003,807**	**11,642,928**	**(69,781)**	**45,847,446**	**61,424,400**
Capital assets, net	**$ 549,771,672**	**$ 58,297,430**	**$ (69,781)**	**$ -**	**$ 607,999,321**

I-95 Corridor

In 2021 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 14, 2021, the first of three contractual payments were 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.

The CRA outlined three required payments and three rail asset segments. The installment payments do not correlate to the value of the offered segments. The installment payments are made regardless of the acceptance of the segments.

The required contractual payments are as follows:

April 14, 2021	$200 million
November 30, 2021	$200 million
November 30, 2022	$125 million

The rail segments and conveyance terms are as follows:

Segment	Description	Conveyance Terms
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	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. In accordance with the CRA, the survey and titling work must be completed by June 30, 2024.
Segment 2: S-Line	75-mile rail corridor from just south of Petersburg, VA to Ridgeway, NC	Convey upon acceptance. The acceptance date per CRA is 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	Conveyance accepted on November 30, 2021.

The purchase price and corresponding transaction costs were capitalized as an intangible asset until fee simple ownership of the assets is obtained. Based on the asset valuation, the fair value of all assets acquired approximates the acquisition consideration of $525.0 million. Using comparable market data, the value was allocated to the respective asset components (land and rail infrastructure). As the segments are converted to land and rail infrastructure ownership, the determined value will be transferred from an intangible asset to the respective asset classification.

On November 30, 2021, VPRA accepted Segment 3. At that time the allocation of land and rail infrastructure assets obtained in Segment 3 was determinable. The total asset value of Segment 3 was $237.7 million, comprised of $191.9 million of land and $45.8 million of rail infrastructure. As disclosed in Footnote 2, VPRA depreciates Rail Infrastructure over a 40-year useful life. As the assets acquired in Segment 3 had varying useful lives, a 20-year remaining life will be applied to the assets. As of June 30, 2022, $1.3 million of depreciation was recorded for the seven months of ownership. As of June 30, 2022, the acquisition value for Segment 1 and Segment 2 will remain an intangible asset. The intangible will be converted to land and rail infrastructure once fee simple ownership is conveyed to VPRA.

Western Rail Corridor

In 2022 the Authority completed efforts to purchase 28.5 miles of rail capacity, right-of-way, and rail infrastructure from Norfolk Southern ("NS') known as the "V-line" for $38.2 million. The agreement between VPRA and NS was finalized on January 10, 2022 and financial close occurred on June 28, 2022. The Authority formally assumed the underlying assets as of the financial close date. In addition to the purchase price of $38.2 million, VPRA incurred $2.5 million of transaction costs to complete the purchase.

Based on the asset valuation, the fair value of all assets acquired approximates the acquisition consideration. Using comparable market data, the value was allocated to the respective asset components (land and rail infrastructure). The total asset value of the V-line was $40.7 million, comprised of $31.2 million of land and $9.5 million of rail infrastructure. As the assets were acquired on June 28, 2022, no depreciation was recognized as of June 30, 2022.

Capital asset activity for the year ended June 30, 2021 was as 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**

NOTE 5 – LONG-TERM OBLIGATIONS

The changes in long-term liabilities for the year ended June 30, 2022 and 2021 are as follows:

	Balance, July 1, 2021	**Additions**	**Reductions**	**Balance, June 30, 2022**	**Current portion**
Lease Obligation	$ -	$ 3,770,113	$ -	$ 3,770,113	$ 91,884
Due to CSXT	325,000,000	-	(200,000,000)	125,000,000	125,000,000
Compensated absences	71,883	255,823	-	327,706	-
Net Pension Liability	-	107,004	-	107,004	-
Net Other Postemployment Benefits	-	22,167	-	22,167	-

	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 PTO in accordance with Authority's policy. At termination or retirement, employees are paid for unused accrued leave balances. The Authority accrued $327,706 and $71,883 for compensated absences as of June 30, 2022 and 2021, respectively. Compensated absences will include current and long-term amounts in subsequent years when historical data is available.

Lease Obligation

The Authority entered into a 10-year, 8-month lease agreement for office space in Richmond in May 2022. Terms of the agreement provide for 8 months of abated rent, with monthly payments of $37,545 commencing in February 2023. The Authority recorded a $3,770,113 lease obligation, utilizing a 3.25% interest rate. The lease asset is amortized over a 128-month period on a straight-line basis. Future minimum lease payments as of June 30, 2022 are shown below.

Year Ending June 30	Interest	Principal	Total
2023	133,387	91,884	225,271
2024	114,567	335,977	450,544
2025	103,484	347,060	450,544
2026	92,035	358,509	450,544
2027	80,208	370,336	450,544
2028 - 2033	211,645	2,266,347	2,477,992
Total	735,326	3,770,113	4,505,439

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, 2022 and 2021, there are no pending or threatened litigation and claims against the Authority.

NOTE 7 – COMMITMENTS

At June 30, 2022, the Authority had capital grant commitments outstanding of $284.5 million and other contractual commitments of $76.6 million, both net of expenses incurred. The Authority also has $22.7 million of funding committed to reimburse the DRPT for expenses related to grants managed by DRPT.

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 – SUBSEQUENT EVENTS

From June 30, 2022 through the date of issuance, there were no subsequent events requiring disclosure.

NOTE 9 - RECLASSIFICATION

Certain prior year amounts in the Statement of Net Position have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

NOTE 10 – PENSION PLAN

A. Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee 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 in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan. Detail information regarding the plans is detailed in the VRS' published Annual Comprehensive Annual Report available at website at varetire.org/pdf/publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Contributions

The contribution requirement for active employees is governed by § 51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each entity's contractually required employer contribution rate for the fiscal year ended June 30, 2022, was 14.46% of covered employee compensation for employees in the VRS. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rates, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Retirement Plan were $356,373 and $18,455 for the years ended June 30, 2022, and June 30, 2021, respectively.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the Authority reported a liability of $107,004 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2021, and the total pension liability used to calculate the Net Pension Liability, was determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. The VPRA's proportion of the Net Pension Liability was based on the Authority's actuarially determined employer contributions to the pension plan for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the Authority's proportion of the VRS State Employee Retirement Plan was 0.00295% as compared to 0.0000% at June 30, 2020.

For the year ended June 30, 2022, the Authority recognized pension expense of $56,072 for the VRS State Employee Retirement. Since there was a change in proportionate share between June 30, 2020, and June 30, 2021, a portion of the pension expense was related to deferred amounts from changes in proportion and differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 964	$ 6,143
Net difference between projected and actual earnings on plan investments	-	73,665
Change in assumptions	12,301	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	135,463	-
Employer contributions subsequent to the measurement date	356,373	-
Total	$ 505,101	$ 79,808

$356,373 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2023.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ending June 30:	Deferred Outflows (Inflows) of Resources
FY 2023	$ 40,746
FY 2024	36,741
FY 2025	13,925
FY 2026	(22,492)
FY 2027	-
Thereafter	-
Total	$ 68,920

D. Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary Increases, including inflation	3.50% – 5.35%
Investment Rate of return	6.75%, net of pension plan investment, including inflation

Pre-Retirement:
Pub-2010 Amount Weighted General Employee Rates projected generationally; females set forward 2 years

Post-Retirement:
Pub-2010 Amount Weighted General Healthy Retirees Rates projected generationally; 110% of rates for females

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Retirees Rates projected generationally; males and females set forward 3 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted General Contingent Annuitant Rates projected generationally; 110% of rates for males and females

Mortality Improvement:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

E. Net Pension Liability

The net pension liability (NPL) is calculated separately for each plan and represents that particular plan's total pension liability determined in accordance with GAAP, less that plan's fiduciary net position. As of June 30, 2021, NPL amounts for the VRS State Employee Retirement are as follows (amounts expressed in thousands):

	State Employee Retirement Plan
Total Pension Liability	$ 26,739,647
Plan Fiduciary Net Position	23,112,417
Employers' Net Pension Liability	$ 3,627,230
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.44%

The total pension 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 pension liability is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

F. Long-Term Expected Rate of Return

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

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi -Asset Public Strategies	6.00%	3.29%	0.20%
PIP- Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

* *The above allocation provides a one-year expected return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.*

* *On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.*

G. Discount Rate

The discount rate used to measure the total pension liability 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. Through the fiscal year ending June 30, 2021, the rate contributed by the Authority for the VRS State Employee Retirement 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 contribution rate. From July 1, 2021, on, all agencies 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.

H. Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net pension 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:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Authority's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 200,431	$ 107,004	$ 28,716

I. Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Report, which may be downloaded from the VRS website at varetire.org/pdf/publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

J. Payables to the Pension Plan

The payable amount outstanding to the VRS State Employee Retirement Plan at June 30, 2022 was $79,154 for legally required contributions into the Plan.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

A. Group Life Insurance Program

I. Plan Description

All full-time, salaried permanent employees of state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS GLI upon employment. This plan is administered by the System, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance 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 group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from 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.

II. Group Life Insurance Program Plan Provisions

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

Eligible Employees

The GLI was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

Basic group life insurance 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.

Benefit Amounts

The benefits payable under the GLI have several components.

- 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:
  - Accidental dismemberment benefit
  - Seatbelt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in Benefit Amounts

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.

Minimum Benefit Amount and COLA

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the 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 $8,722 as of June 30, 2022.

III. Contributions

The contribution requirements for the GLI are governed by § 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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% 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, 2022, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 the Authority were $33,025 and $1,710 for the years ended June 30, 2022, and June 30, 2021, respectively.

IV. GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI OPEB

At June 30, 2022, the participating employer reported a liability of $7,219 for its proportionate share of the Net GLI OPEB liability. The Net GLI OPEB liability was measured as of June 30, 2021 and the total GLI OPEB liability used to calculate the Net GLI OPEB liability was determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. 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, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the participating employer's proportion was 0.00062% as compared to 0.00000% at June 30, 2020.

For the year ended June 30, 2022, the participating employer recognized GLI OPEB expense of $1,822. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, 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	$ 823	$ 55
Net difference between projected and actual earnings on plan investments	-	1,723
Change in assumptions	398	988
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,634	-
Employer contributions subsequent to the measurement date	33,025	-
Total	$ 41,880	$ 2,766

$33,025 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, 2023.

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:		Deferred Outflows (Inflows) of Resources
FY 2023	$	1,171
FY 2024		1,251
FY 2025		1,254
FY 2026		1,000
FY 2027		1,413
Thereafter		-
Total	$	6,089

V. Actuarial Assumptions

The total GLI OPEB Liability was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%	
Salary increases, including inflation -		
General state employees	3.50%	- 5.35%
Investment rate of return	6.75%	net of investment expenses, including inflation

VI. Net GLI OPEB Liability

The net OPEB liability (NOL) for the GLI represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of the measurement date of June 30, 2021, NOL amounts for the GLI are as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	$	3,577,346
Plan Fiduciary Net Position	$	2,413,074
GLI Net OPEB Liability	$	1,164,272
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		67.45%

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 GAAP in the System's notes to the financial statements and required supplementary information.

VII. 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)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi -Asset Public Strategies	6.00%	3.29%	0.20%
PIP- Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

** The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.*

On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

VIII. 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, 2021, the rate contributed by the entity for the GLI OPEB 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 contribution rate. From July 1, 2021 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB Liability.

IX. Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB Liability using the discount rate of 6.75%, as well as what the employer'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:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Authority's proportionate share of the GLI Plan Net OPEB Liability	$ 10,547	$ 7,219	$ 4,531

X. Group Life Insurance Program Fiduciary Net Position

Detailed information about the GLI's Fiduciary Net Position is available in the separately issued VRS 2021 *Annual Comprehensive Financial Report* (Annual Report), which may be downloaded from the VRS website at varetire.org/pdf/publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

XI. Payables to the VRS Group Life Insurance OPEB Plan

The payable outstanding to the GLI at June 30, 2022 was $33,025 for legally required contributions into the Program.

B. Health Insurance Credit Program

I. Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee HIC. This plan is administered by the System, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

II. State Employee Health Insurance Credit Program Plan Provisions

The specific information about the State HIC OPEB, including eligibility, coverage and benefits is set out in the table below:

Eligible Employees The State Employee Retiree HIC was established January 1, 1990, for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees who enrolled automatically upon employment include full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
Benefit Amounts The State Employee Retiree HIC provides the following benefits for eligible employees: • At Retirement: For State employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount. • Disability Retirement: For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher. For State police officer employees with a non-work-related disability who retire on disability or go on long- term disability under the VSDP, the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher. For State police officers with a work-related disability, there is no benefit provided under the State Employee Retiree HIC if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.

Health Insurance Credit Notes

- The monthly Health Insurance Credit benefit cannot exceed the individual's premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the Health Insurance Credit as a retiree.

III. Contributions

The contribution requirement for active employees is governed by § 51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each entity's contractually required employer contribution rate for the year ended June 30, 2022, was 1.12% of covered employee compensation for employees in the VRS State Employee HIC. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority the VRS State Employee HIC were $27,603 and $1,429 for the years ended June 30, 2022 and June 30, 2021, respectively.

In June 2021, the Commonwealth made a special contribution of approximately $38.7 million, which was applied to the HIC Plan for state employees. This special payment was authorized by a budget amendment included Chapter 552 of the 2021 Appropriation Act.

IV. State Employee HIC OPEB Liabilities, State Employee HIC OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee HIC OPEB

At June 30, 2022, the Authority reported a liability of $14,948 for its proportionate share of the VRS State Employee HIC Net OPEB liability. The Net VRS State Employee HIC OPEB Liability was measured as of June 30, 2021 and the total VRS State Employee HIC OPEB liability used to calculate the Net VRS State Employee HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The Authority's proportion of the Net VRS State Employee HIC OPEB liability was based on the Authority's actuarially determined employer contributions to the VRS State Employee HIC OPEB plan for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2021, the Authority's proportion of the VRS State Employee HIC was 0.00177% as compared to 0.0000% at June 30, 2020.

For the year ended June 30, 2022, the Authority recognized VRS State Employee HIC OPEB expense of $3,967. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee HIC Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee HIC OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5	$ 487
Net difference between projected and actual earnings on plan investments	-	284
Change in assumptions	387	42
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,524	-
Employer contributions subsequent to the measurement date	27,603	-
Total	$ 41,519	$ 813

$27,603 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Authority ’s contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year ending June 30:	Deferred Outflows (Inflows) of Resources	
FY 2023	$	2,579
FY 2024		2,606
FY 2025		2,609
FY 2026		2,565
FY 2027		2,666
Thereafter		78
Total	$	13,103

V. Actuarial Assumptions

The total State Employee HIC OPEB Liability for the VRS State Employee HIC was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%	
Salary increases, including inflation -		
General state employees	3.50%	- 5.35%
Investment rate of return	6.75%	net of investment expenses, including inflation

Mortality rates for General State Employee are presented in the “Notes to the Financial Statements: Appendix”

VI. Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee HIC represents the program’s total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of June 30, 2021, NOL amounts for the VRS State Employee HIC are as follows (amounts expressed in thousands):

	State Employee HIC OPEB Program	
Total State Employee HIC OPEB Liability	$	1,052,400
Plan Fiduciary Net Position	$	207,860
State Employee Net HIC OPEB Liability	$	844,540
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability		19.75%

The total State Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GAAP in the System’s notes to the financial statements and required supplementary information.

VII. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi -Asset Public Strategies	6.00%	3.29%	0.20%
PIP- Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

** The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.*

On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

VIII. Discount Rate

The discount rate used to measure the total State Employee HIC OPEB 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 at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2021, the rate contributed by the Authority for the VRS State Employee HIC 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 contribution rate. From July 1, 2021, on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC 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 State Employee HIC OPEB liability.

IX. Sensitivity of the Authority's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the VRS State Employee HIC net HIC OPEB liability using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net HIC 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:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Authority's proportionate share of the Employee HIC OPEB Plan Net HIC OPEB Liability	$ 16,769	$ 14,948	$ 13,389

X. State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee HIC's Fiduciary Net Position is available in the separately issued VRS 2021 *Annual Comprehensive Financial Report* (Annual Report), which may be downloaded from the VRS website at varetire.org/pdf/publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

XI. Payables to the State Employee HIC OPEB Plan

The payable amount outstanding to the VRS HIC Program at June 30, 2022 was $27,603 for legally required contributions to the Program.

C. VRS Disability Insurance Program

I. Plan Description

All full-time and part-time permanent salaried state employees who are covered under the VRS, the State Police Officers' Retirement System ("SPORS"), or the Virginia Law Officers' Retirement System ("VaLORS") hired on or after January 1, 1999, are automatically covered by the VSDP upon employment. The VSDP also covers state employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the System, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

II. Virginia Sickness and Disability Program Plan Provisions

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

Eligible Employees

The VSDP, also known as the Disability Insurance Trust Fund, was established January 1, 1999, to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP).
- State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.

- Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

Benefit Amounts

The VSDP provides the following benefits for eligible employees:

- Leave: Sick, family and personal leave. Eligible leave benefits are paid by the employer.
- Long-Term Disability (LTD): The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the VSDP OPEB Plan.
- Other Benefit Provisions: In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
- Income Replacement Adjustment: The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- VSDP Long-Term Care Plan: The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program Plan Notes

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (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%).
  - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (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%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

III. Contributions

The contribution requirements for the VSDP are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the VSDP for the year ended June 30, 2022, was 0.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the VSDP from the entity were $15,034 and $779 for the years ended June 30, 2022 and June 30, 2021, respectively.

IV. Disability Insurance Program OPEB Assets, VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2022, the Authority reported an asset of $10,170 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB asset was measured as of June 30, 2021, and the total VSDP OPEB asset used to calculate the Net VSDP OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. The Authority's proportion of the Net VSDP OPEB Asset was based on the agency's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the Authority's proportion was 0.00295% as compared to 0.00000% at June 30, 2020.

For the year ended June 30, 2022, the Authority recognized VSDP OPEB expense of $1,037 Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 483	$ 1,649
Net difference between projected and actual earnings on plan investments	-	1,904
Change in assumptions	69	240
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,109
Employer contributions subsequent to the measurement date	15,034	-
Total	$ 15,586	$ 8,902

$15,034 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB asset in the Fiscal Year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year ending June 30:	Deferred Outflows (Inflows) of Resources
FY 2023	$ (1,642)
FY 2024	(1,634)
FY 2025	(1,630)
FY 2026	(1,724)
FY 2027	(1,180)
Thereafter	(540)
Total	$ (8,350)

V. Actuarial Assumptions

The total VSDP OPEB asset was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%	
Salary increases, including inflation -		
General state employees	3.50%	- 5.35%
Investment rate of return	6.75%	net of investment expenses, including inflation

VI. Net VSDP OPEB Asset

The net OPEB asset for the VSDP represents the program's total OPEB liability determined in accordance with GAAP, less the associated fiduciary net position. As of the measurement date of June 30, 2021, NOA amounts for the VSDP are as follows (amounts expressed in thousands):

	Virginia Sickness and Disability OPEB Program
Total VSDP OPEB Liability	$ 267,198
Plan Fiduciary Net Position	$ 611,919
VSDP Net OPEB Asset	$ (344,721)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	229.01%

The total VSDP 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 OPEB asset is disclosed in accordance with the requirements of GAAP in the System's notes to the financial statements and required supplementary information.

VII. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi -Asset Public Strategies	6.00%	3.29%	0.20%
PIP- Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

** The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.*

On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

VIII. Discount Rate

The discount rate used to measure the total VSDP OPEB asset was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they 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, 2021, the rate contributed by participating employers to the VSDP OPEB Program 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 contribution rate. From July 1, 2021, on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program'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 VSDP OPEB asset.

IX. Sensitivity of the Authority Proportionate Share of the Net VSDP OPEB Asset to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net VSDP OPEB asset using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net VSDP OPEB asset 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:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Authority's proportionate share of the VSDP Net OPEB Asset	$ 9,608	$ 10,170	$ 10,664

X. VSDP OPEB Fiduciary Net Position

Detailed information about the VSDP Fiduciary Net Position is available in the separately issued VRS 2021 *Annual Comprehensive Financial Report*, which may be downloaded from the VRS website at varetire.org/ pdf/publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

XI. Payables to the VSDP OPEB Plan

The payable amount outstanding to the VRS Virginia VSDP at June 30, 2022 was $15,034 for legally required contributions into the Program.

Required Supplementary Information

Schedule of the Employer's Share of Net Pension Liability VRS

VRS State Employee Retirement Plan

For the Measurement Date of June 30, 2021

Date	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.00295%	$ 107,004	$ 127,625	83.84%	86.44%

Schedule of the Employer's Contributions

VRS State Employee Retirement Plan

For the Measurement Date of June 30, 2021

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2022		$ 356,373			
2021	$ 18,455	$ 18,455	$ -	$ 127,625	14.46%

Schedule is intended to show information for 10 years. Since 2021 is the eighth year for this presentation, there is only that year available. However, additional years will be included as they become available.

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 for the VRS - State Employee Retirement Plan as a result of the experience study and VRS Board action may be viewed in the Notes to the Financial Statements – Appendix.

Schedule of the Employer's Share of Net OPEB Liability
Group Life Insurance Plan (GLI)
For the Measurement Date of June 30, 2021

Date	Employer's Proportion of the Net GLI OPEB Liability	Employer's Proportionate Share of the Net GLI OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability
2021	0.00062%	$ 7,219	$ 127,625	5.66%	67.45%

Schedule of the Employer's Contributions
Group Life Insurance Program
For the Measurement Date of June 30, 2021

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2022		$ 33,025			
2021	$ 1,710	$ 1,710	$ -	$ 127,625	8.36%

Schedule is intended to show information for 10 years. Since 2021 is the eighth year for this presentation, there is only that year available. However, additional years will be included as they become available.

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 for the VRS - State Employee Retirement Plan as a result of the experience study and VRS Board action may be viewed in the Notes to the Financial Statements – Appendix.

Schedule of the Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Measurement Date of June 30, 2021

Date	Employer's Proportion of the Net HIC OPEB Liability	Employer's Proportionate Share of the Net HIC OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net HIC OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability
2021	0.00177%	$ 14,948	$ 127,625	11.71%	19.75%

Schedule of the Employer's Contributions
Health Insurance Credit Program
For the Measurement Date of June 30, 2014 through 2021

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2022		$ 27,603			
2021	$ 1,429	$ 1,429	$ -	$ 127,625	1.12%

Schedule is intended to show information for 10 years. Since 2021 is the eighth year for this presentation, there is only that year available. However, additional years will be included as they become available.

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 for the VRS - State Employee Retirement Plan as a result of the experience study and VRS Board action may be viewed in the Notes to the Financial Statements – Appendix.

Schedule of the Employer's Share of Net OPEB Asset
Virginia Sickness and Disability Program
For the Measurement Date of June 30, 2021

Date	Employer's Proportion of the Net VSDP OPEB Asset	Employer's Proportionate Share of the Net VSDP OPEB Asset	Employer's Covered Payroll	Employer's Proportionate Share of the Net VSDP OPEB Asset as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability
2021	0.00295%	$ 10,170	$ 127,625	7.97%	229.01%

Schedule of the Employer's Contributions
Virginia Sickness and Disability Program
For the Measurement Date of June 30, 2014 through 2021

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2022		$ 15,034			
2021	$ 779	$ 779	$ -	$ 127,625	0.61%

Schedule is intended to show information for 10 years. Since 2021 is the eighth year for this presentation, there is only that year available. However, additional years will be included as they become available.

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 for the VRS - State Employee Retirement Plan as a result of the experience study and VRS Board action may be viewed in the Notes to the Financial Statements – Appendix

Valuation Assumptions:

Mortality Rates – General State Employees

Pre-Retirement:
Pub-2010 Amount Weighted General Employee Rates projected generationally;

Post-Retirement:
Pub-2010 Amount Weighted General Healthy Retirees Rates projected generationally; 110% of rates for females

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Retirees Rates projected generationally;
males and females set forward 3 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted General Contingent Annuitant Rates projected generationally;
110% of rates for males and females

Mortality Improvement:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

COMPLIANCE SECTION

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 17, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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.

Cherry Bekaert LLP

Richmond, Virginia
November 17, 2022