November 27, 2023

### Finance Committee Meeting





# Agenda

FY23 Audit Committee Communication	Rob Churchman (Cherry Bekaert)
FY23 Financial Statements	Bonnie Hite (VPRA)
Meeder Investment Management	Eileen Stanic (Meeder) Jason Szabo (Meeder)
FY25 Budget Cycle	Shannon Perry (VPRA)



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# FY23 Audit Committee Communication



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### Virginia Passenger Rail Authority Audit Executive Summary

November 27, 2023





### Agenda

- Client Service Team
- Results of the Audit
- Internal Control Communication
- Corrected and Uncorrected Misstatements
- Qualitative Aspects of Accounting Practices
- Independence Considerations
- Other Required Communications
- Other Matters
- Upcoming Financial Reporting Changes

This information is intended solely for the use of the Board of Directors of the Virginia Passenger Rail Authority and is not intended to be, and should not be, used by anyone other than these specified parties.



### **Client Service Team**



### **Results of the Audit**

We have audited the financial statements of the Virginia Passenger Rail Authority (the "Authority"), as of and for the fiscal year ended June 30, 2023, and have issued our unmodified report thereon dated October 17, 2023.

In accordance with *Government Auditing Standards*, we considered the Authority's internal control over financial reporting and compliance with the Auditor of Public Accounts' (the "APA") *Specifications for Audits of Authorities, Boards, and Commissions* and *Government Auditing Standards*.

We reported one (1) material weaknesses in internal control over financial reporting and no noncompliance matters.





# **Internal Control Communication**

In planning and performing our audit, we considered 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

### **Internal Control Communication**

#### **Material Weakness**

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.

#### Significant Deficiency

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.

We reported a material weakness in internal control over financial reporting.



### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

**Corrected Misstatements** 

Restatement of beginning net position for error in revenue recognition in 2022.

**Uncorrected Misstatements** 

None noted.



Government Accounting Standards Board ("GASB") No. 96, *Subscription-Based Information Technology Arrangements*, was adopted in fiscal year 2023.

GASB Statement No. 100, *Accounting Changes and Error Corrections,* was early adopted in fiscal year 2023.

The application of existing policies was not changed during the year. We noted no inappropriate accounting policies or practices.





As part of our audit, we evaluated the Authority's identification of, accounting for, and disclosure of the Authority's relationships and transactions with related parties as required by professional standards.





We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

For purposes of this letter, professional standards define significant, unusual transactions as transactions that are outside the normal course of business for the Authority or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant, unusual transactions during our audit.





Accounting estimates are an integral part of the financial statements. Certain accounting estimates are particularly sensitive because of their significance to the financial statements. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allocation of purchased assets to land and depreciable assets.
- Management's estimate of depreciation is based on estimated useful lives of capitalized assets
- Management's estimate of the net pension and OPEB assets/liabilities and deferred flows of resources.





### **Independence Considerations**

#### **Nonattest Services**

For all nonattest services we perform, you are responsible for designating a competent employee to oversee the services, make any management decisions, perform any management functions related to the services, evaluate the adequacy of the services, and accept overall responsibility for the results of the services.

#### **Independence Conclusion**

We are not aware of any other circumstances or relationships that create threats to auditor independence.

### **Other Required Communications**

#### Difficulties Encountered

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Disagreements with Management

Includes disagreements on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report no such disagreements arose during the course of our audit.

#### Auditor Consultations

We noted no matters that are difficult or contentious for which the auditor consulted outside the engagement team.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2023.

### **Other Required Communications**

#### Management Consultations

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations.

To our knowledge, there were no such consultations with other accountants.

#### Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year.

These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Fraud and Illegal Acts

As of the date of this presentation, no fraud, illegal acts, or violations of laws and regulations noted.

#### Going Concern

No events or conditions noted that indicate substantial doubt about the Authority's ability to continue as a going concern.

### **Other Matters**

#### **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.



# **New Accounting and Reporting Changes**

#### **GASB** statements effective for FY 2024:

- ► GASB Statement No. 99 Omnibus 2022
  - Addresses practice issues associated with GASB Statement Nos. 53, 87, 94, 96 and other topics (requirements related to financial guarantees, and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 effective FY 2024)

# **New Accounting and Reporting Changes**

#### **GASB** statements effective for FY 2025:

► GASB Statement No. 101 – Compensated Absences

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.



### **Questions?**

#### **Rob Churchman**

<u>rchurchman@cbh.com</u> (804) 673-5733

#### Mike Rinehart

Mike.Rinehart@cbh.com (804) 673-5726

#### About Cherry Bekaert

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# **FY23 Financial Statements**



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### Restatement of FY2022 Financial Results

- In FY2022, recorded funding received from the Commonwealth of Virginia for budget allocations to the Western Rail Initiative as a liability Unearned Revenue totaling \$46.6M.
- Detail concerning this new line item in the Statement of Net Position was subjected to audit for FY2022.
- For FY2022, followed FASB ASC 606 for revenue recognition; determined during this year-end close that GASB Stmt. No. 33 was appropriate.

Statement Line Item	Original FY2022	Correction	Restated FY2022
Noncurrent Liabilities:			
Unearned Revenue	\$95.9M	(\$46.6M)	\$49.3M
Net Position:			
Restricted	-	46.6M	46.6M
Nonoperating Revenues:			
Other COV Contributions	183.0M	46.6M	229.6M



### **Statement of Net Position**

#### HIGHLIGHTS

- VPRA ended the fiscal year with over \$1.3 billion in assets, a \$316.1 million increase from prior year.
- Liquidity/working capital of the Authority continues to improve significantly, with a quick ratio of 15.1 compared to 2.9 in prior year.
- Cash Equivalents increased by 36% and Investments by over 300%, contributing to \$20.2 million in net investment revenue for FY23.
- The last installment payment of \$125 million was paid to CSX in FY23 and \$70.2 million was reclassified from the intangible asset to land to record acquisition of the S-Line corridor.

#### **Condensed Statements of Net Position**

	2023	2022 (as restated)	Change
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	\$ 706,654,916	\$ 428,759,654	\$ 277,895,262
Capital and Other Noncurrent Assets, Net	650,193,089	614,950,630	35,242,459
Total Assets	1,356,848,005	1,043,710,284	313,137,721
Deferred Outflows of Resources	3,573,843	604,086	2,969,757
Total Assets and Deferred Outflows of Resources	1,360,421,848	1,044,314,370	316,107,478
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities	45,060,483	149,525,227	(104,464,744)
Long-term Liabilities, as restated	72,771,506	53,464,075	19,307,431
Total Liabilities, as restated	117,831,989	202,989,302	(85,157,313)
Deferred Inflows of Resources	668,514	92,289	576,225
Total Liabilities and Deferred Inflows of Resources	118,500,503	203,081,591	(84,581,088)
NET POSITION:			
Net Investment in Capital Assets	627,289,104	470,191,756	157,097,348
Restricted, as restated	129,510,571	46,567,359	82,943,212
Unrestricted	485,121,670	324,473,664	160,648,006
Total Net Position, as restated	\$1,241,921,345	\$ 841,232,779	\$ 400,688,566



### Statement of Revenues, Expenses, & Changes in Net Position

#### HIGHLIGHTS

- During FY23, operating income from passenger rail services covered 72% of the combined train operating expenses and Authority administrative costs, a decrease from 81% in prior year.
- \$455.0 million in revenues were recognized from Commonwealth sources and funding partners, contributing to the overall increase of Net Nonoperating Revenues by 12%.
- Taking advantage of the favorable interest rate environment over the course of FY23 allowed for an overall increase in net investment revenue of **3,419%** from prior year.

#### Condensed Statements of Revenues, Expenses and Changes in Net Position

		2022	
-	2023	(as restated)	Change
Operating Revenues	\$ 85,375,360	\$ 52,355,858	\$ 33,019,502
Operating Expenses	(118,948,394)	(64,712,839)	(54,235,555)
Depreciation and Amortization	(3,391,283)	(1,659,707)	(1,731,576)
Net Operating Loss	(36,964,317)	(14,016,688)	(22,947,629)
Nonoperating Revenues (Expenses):			
Commonwealth Rail Fund	186,793,598	172,852,567	13,941,031
Contributions from Funding Partners	134,911,097	1,543,658	133,367,439
Other Commonwealth of Virginia			
Contributions, as restated	133,272,406	229,583,933	(96,311,527)
Investment Revenue, net	20,250,212	575,526	19,674,686
Other Nonoperating Expense	(37,574,430)	(15,088,577)	(22,485,853)
Total Nonoperating Revenues, net, as			
restated	437,652,883	389,467,107	48,185,776
Change in Net Position, as restated	400,688,566	375,450,419	25,238,147
Net Position, beginning of the year,			
as restated	841,232,779	465,782,360	375,450,419
Net Position, ending, as restated	\$ 1,241,921,345	\$ 841,232,779	\$ 400,688,566



### Statement of Revenues, Expenses, & Changes in Net Position





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# **Meeder Investment Management**



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PUBLIC FUNDS ADVISORY

### Customized Investment Portfolios

#### Prepared for Virginia Passenger Rail Authority

PRESENTED BY:

EILEEN STANIC, CTP REGIONAL DIRECTOR, ADVISORY SERVICES

JASON SZABO, CFA DIRECTOR OF FIXED INCOME

NOVEMBER 27, 2023



#### **Firm Overview**

Founded in 1974. SEC Registered Investment Advisor serving public entities since 1990.



More than 350 public entity clients.



Customized solutions for states, counties, cities, schools, townships, libraries, higher education, and

districts.

Over \$48 billion in public funds assets under advisement (12/31/22).



Seasoned Fixed Income Team specializes in working with public entities.



Focus on management of operating and project funds.

#### **Firm Overview**

### We provide the following services to public entities

Investment Policy Review	The Investment Policy would be reviewed to ensure it is in line with state law.
Cash Flow Review	Throughout the year we will help you monitor your cash flows to determine the proper amount to have invested compared to liquid in cash.
Investment Strategy	You will have access to our professional investment team that will strategically formulate a custom investment plan to meet your needs as well as the ever-changing interest rate environment.
Execution of Trades	We utilize our purchasing power and expansive broker network to ensure best price execution.
Monthly Reporting and Review	We provide consolidated reporting of your assets, including transactions summaries, monthly and quarterly reports, and custom reports for your board, council, or commissioners to keep everyone up to speed on changes in the portfolio and economy. Additionally, we will provide you with annual GASB reporting to aid you with your year-end processes.
Compliance Monitoring	We have a best-in-class compliance monitoring system. This allows us to build rules for your investment policy, state law, and any additional restrictions placed on the portfolio, allowing us to run both pre- and post-trade compliance monitoring.
Credit Research	Our in-house research team monitors corporate issuers in the marketplace, determining our approved issuer list and keeping you apprised of any changes.
Banking and Custody	In the event you would look to establish a new banking or custody relationship, we are here to provide assistance through the process.

#### **Meeder Approach to Portfolio Management**



#### Portfolio Construction

consistent & higher income versus short maturity profiles

Strategic position sizing targets 0.50%-1.50% Tactical position sizing 1.50%-3.50%.

Asset Class

based upon permitted asset classes & historical yield spreads.

Tactical decisions to position overweight & underweight strategic allocations based upon deviations from historical spread relationships

#### **Security Selection**

Security specific valuations metrics – option adjusted spreads, nominal spreads, Gspreads, volatility assessment for callable and non-callable structures

Evaluating new issue opportunities vs secondary market product offerings

Evaluating income/yield enhancing swaps via active management.

#### **Trade Execution**

Access to over 44 direct broker/dealers

Additional source of product offering & trading capabilities from anonymous electronic trading platforms

Technology: Bloomberg, MarketAxess, Charles River, pre & post-trade compliance monitoring

#### **Getting started**



#### Disclosures

#### PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Opinions and forecasts regarding markets, securities, products, portfolios or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicitation, or recommendation of any security or investment product is intended. Certain information and data has been supplied by unaffiliated third-parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third-parties.

Net interest income is illustrated net of investment advisory fees proposed for the assets under management. Fees are illustrated at the rate of 0.04% for the first \$100,000,000 under management, 0.03% on the next \$100,000,000 and 0.02% for sums over \$200,000,000. Investment advisory fees do not include custody fees.

Estimates and illustrations of expected yield for illustrated portfolios is hypothetical in nature, does not reflect actual investment results, and does not guarantee future returns. Hypothetical illustrations are offered to illustrate the yield expected from classes of securities and do not reflect actual securities available for investment. Estimates of current yield are generated from indexes and other information deemed by the adviser to provide a reliable estimate of the current yield available from investments in that asset class. Securities indices are unmanaged and investments cannot be made directly in an index. Yield assumptions were developed with the benefit of hindsight and the securities purchased for such an account may generate more or less than the illustrated yield.

Investment advisory services provided by Meeder Public Funds, Inc.

Meeder Investment Management

6125 Memorial Drive Dublin, OH 43017 866.633.3371

### **Disclosures**



MeederInvestment.com

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

# FY25 Budget Cycle



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### FY25 Budget Timeline



# Management Reserve Balance

Sources	
	in millions
Beginning Total Sources	\$6,413.1
I-66 ITB PAYGO	12.0
I-00 IID FATGO	13.0
FY23 Excess CRF Revenues	3.5
FY23 Interest & Realized Gains	5.0
Operating Surplus	24.7
CRISI Grant Award – Bypass Project	100.0
Delegated Authority: VRE Track Access Fess	(0.3)
Total FY23 Q4 & FY24 Q1 Increase	\$145.9
Ending Total Sources	\$6,559.0



#### Management Reserve

	in millions
Beginning Management Reserve	\$123.5
FY23 Q4 & FY24 Q1 Increase	\$145.9
Ending Management Reserve	\$269.4
VPRA Fund - Unconstrained	229.0
Amtrak Capital Contribution – Constrained	40.4

Amtrak Capital Contribution previously allocated to the Bypass project is restricted to the ten qualified projects in the I-95 corridor.

#### Explanation of FY23 Q4 & FY24 Q1 Change:



PAYGO: VPRA received \$13M of I-66 inside-the-beltway PayGo funds from VDOT in June '23. Further assessment of the overall PayGo stream will be performed once additional data on actual revenues is received from VDOT.
CRF: Actual FY23 revenue received exceeded the \$183M estimate in the financial plan.
Interest: Actual FY23 interest earnings and realized gains exceeded the \$15M estimate in the financial plan.
Operating Surplus: Actual FY23 net operations costs were \$24.7M below the expected \$61.6M spend.
CRISI Grant: The FRA awarded VPRA \$100M to be utilized on the Franconia Bypass project.

### Management Reserve Balance FY23 Q4 & FY24 Q1





At this time, VPRA staff recommends that the increase is carried in the management reserve balance and that the use of reserve funding be contemplated as part of the FY25 budget process. The following recommendation will be presented at the **December 6<sup>th</sup> BOD meeting**:

Approve the Management Reserve balance of \$269.4M as of September 30, 2023.



