VIRGINIA RAILWAY EXPRESS

A commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission. Headquartered in Alexandria, Virginia.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

VIRGINIA RAILWAY EXPRESS
A Better Way. A Better Life.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Virginia Railway Express

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2014 AND 2013

Prepared by:

Department of Finance

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Introductory Section

October 21, 2014

To the Honorable Operations Board Members and Commissioners
The Virginia Railway Express
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We are pleased to present the comprehensive annual financial report for fiscal year ended June 30, 2014 for the Virginia Railway Express (VRE), a commuter rail service jointly owned and operated by the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). NVTC and PRTC are political subdivisions of the Commonwealth of Virginia. VRE is not a legal entity and is considered a joint venture of the two Commissions for accounting purposes. As used in this report, VRE refers to those activities that are carried out jointly or individually by NVTC and PRTC to operate the commuter rail activities described below.

The report consists of management's representations concerning the finances of VRE. Consequently, management assumes responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, VRE's management has established a comprehensive internal control framework that is designed to protect VRE's assets from loss, theft, or misuse and to gather sufficient reliable information for the preparation of VRE's financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires estimates and judgments by management.

VRE's financial statements have been audited by PBMares, LLP, a firm of licensed certified public accountants, and have earned an unqualified opinion. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) is found immediately following the independent auditor's report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of Virginia Railway Express

VRE provides commuter rail service on two railroad lines originating in Fredericksburg and Manassas, Virginia, and terminating at Union Station, Washington, DC. VRE began operations in 1992 with 16 trains and 1,800 average daily riders. During fiscal year 2014, VRE operated 32 trains and served an average daily ridership of 18,119, based on 251 service days.

VRE is owned by the Commissions. Certain functions have been delegated to the VRE Operations Board, consisting of representatives of the Commissions who are also representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation. The VRE is managed by the Chief Executive Officer, who is a contract employee of both Commissions. PRTC is the recipient of federal grants for the rail service and NVTC is the recipient of state grants for the rail service, with certain minor exceptions. All non-contract staff are employees of PRTC.

In accordance with the Master Agreement that created VRE, the Operations Board must prepare and submit a preliminary annual budget to the Commissions and the contributing and participating jurisdictions by September 30 of the preceding fiscal year for review and comment. A final recommended budget is prepared by December 1 for consideration by the Operations Board and the Commissions by February 1, followed by transmittal to the jurisdictions for appropriation. In addition, the Operations Board is required to have an annual audit performed of the financial activities related to the commuter rail service.

Economic Conditions

Major Initiatives

During fiscal year 2014, VRE focused on improving systems that would ensure the future health of the rail line and allow for expansion as opportunities and funding become available.

Construction of eight Gallery railcars continued during fiscal year 2014 and delivery of the railcars occurred during the first quarter of fiscal year 2015. During fiscal year 2014, VRE placed an order for the construction of an additional seven Gallery railcars, with delivery expected in January 2016. Both sets of railcars will be used to replace existing equipment.

Construction of a third main track between Hamilton and Crossroads in Spotsylvania County and the construction of the new Spotsylvania station began during fiscal year 2014 with completion of both projects expected in the summer of 2015. The design of a platform extension at Lorton was completed during fiscal year 2014 with construction beginning in fiscal year 2015. The construction of second platforms at Lorton, Brooke and Leeland stations are planned for the future. In addition, preliminary engineering has begun for the construction of a pedestrian tunnel at the Alexandria train station between the two station platforms and continuing to the adjacent WMATA King Street Station.

Work began on the development of VRE's mobile ticketing system in the latter part of fiscal year 2014. Mobile purchases made through the new system will be able to be validated and presented to VRE conductors for visual inspection, just as in the current process, though other capabilities may be added as the system fully develops.

Long-Term Financial Planning

In order to help prioritize future needs and address potential future growth, the VRE System Plan 2040 was prepared and adopted by the VRE Operations Board in January 2014. The plan assesses the future long-term ridership demand for VRE service, and identifies the service expansions and capital investments necessary to accommodate that demand. As such, it provides a framework for VRE system investments and actions VRE should pursue through 2040 to best meet regional travel needs. The investments recommended in the System Plan are grouped into three phases between now and 2040. Phase I aligns with the VRE six-year Capital Improvement Program and includes investments that will maximize the capacity of the existing VRE system. Phases II and III focus on major investments to expand system capacity to support long-range service expansion.

The System Plan 2040 identifies overall capital project costs and project timing over the life of the plan and forms the basis for the ongoing annual development of the VRE capital program. The annual budget includes both a multi-year capital program and a six-year forecast of revenue, expenses and funding sources.

A Transit Development Plan (TDP) was prepared in December 2011 and funded by the Virginia Department of Rail and Public Transportation (DRPT) to comply with DRPT requirements for recipients of state transit operating and capital assistance and to assist the agency in preparing inputs to the state Six-Year Improvement Program (SYIP) for transportation. The Plan is updated annually to reflect current agency priorities and costs and to extend the TDP financial plan an additional year to maintain a six-year planning horizon.

Financial Environment

As the price of fuel and demand for parking remain high and highways become even more crowded, commuters have been drawn to the commuter rail system. VRE ridership remains strong due to investments in new equipment and excellent on-time performance. Although subsidy funds continue to be constrained, VRE continues to work with regional, state and federal partners to find additional revenue sources. As a result, future VRE budgets will reflect a balance between meeting service needs, setting fares at a reasonable price, and incorporating new funding sources into the strategic direction set by the Operations Board and the Commissions.

The focus of the VRE Operations Board and VRE management continues to be the provision of safe, reliable commuter rail service to the citizens of Northern Virginia. With the Washington, DC metropolitan area designated as an ozone non-attainment area, public transit continues to play a vital role in addressing the area's need to improve air quality and reduce congestion. It is estimated that VRE provides the equivalent of over one full lane of traffic on both Interstate 95 and Interstate 66 during morning and evening rush hour.

Awards and Acknowledgement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Virginia Railway Express for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

During fiscal year 2014, VRE was presented with a Gold level award from its mass-transit peers by the American Public Transportation Association for its rail security enhancement programs, the highest level award provided by the Association.

This report could not have been prepared without the dedicated cooperation of the entire Finance staff. We would also like to thank the VRE Operations Board and the Commissions for their continued support in planning and conducting the financial operations of VRE in a responsible, progressive fashion,

Respectfully submitted,

Doug Allen
Chief Executive Officer

Donna Boxer, CPA
Chief Financial Officer

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. Paul Milde, Stafford County
Vice-Chairman	Hon. John Cook, Fairfax County
Treasurer	Hon. Paul Smedberg, City of Alexandria
Secretary	Hon. Gary Skinner, Spotsylvania County

Members

Hon. Sharon Bulova, Fairfax County
Hon. Maureen Caddigan, Prince William County
Hon. Martin Nohe, Prince William County
Hon. John Jenkins, Prince William County
Hon. Matt Kelly, City of Fredericksburg
Hon. Suhas Naddoni, City of Manassas Park
Jennifer Mitchell, VDRPT
Hon. Bob Thomas, Stafford County
Hon. Walter Tejada, Arlington County

Alternates

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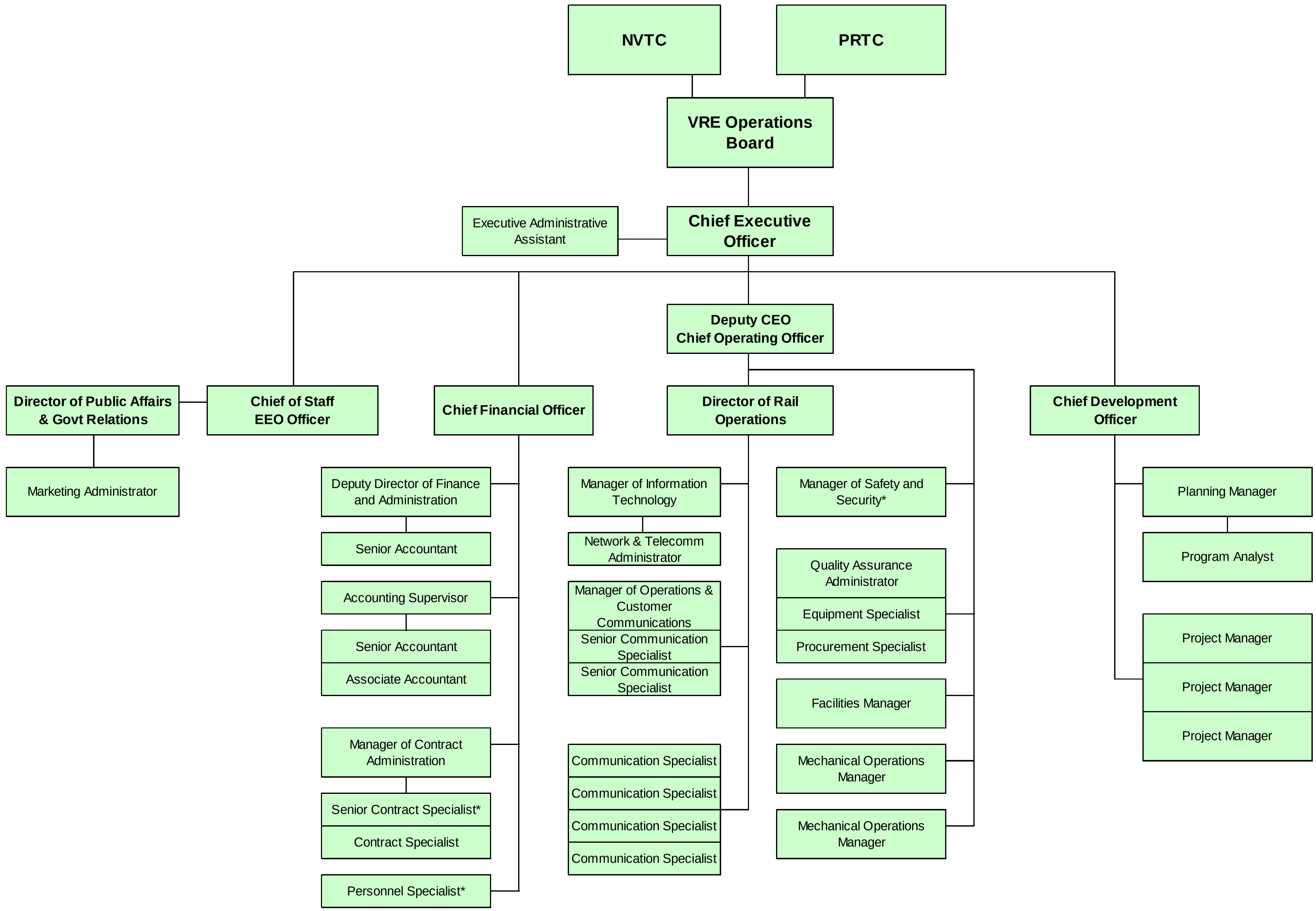
Hon. Meg Bohmke, Stafford County
Hon. Jay Fisette, Arlington County
Hon. Frank Jones, City of Manassas Park
Hon.Tim Lovain, City of Alexandria
Hon. Michael May, Prince William County
Hon. Jeff McKay, Fairfax County
Kevin Page, VDRPT
Hon. Paul Trampe, Spotsylvania County
Hon. William Withers, City of Fredericksburg

Management

Chief Executive Officer	Doug Allen
Deputy CEO & Chief Operating Officer	Richard Dalton
Chief of Staff	Joseph Swartz
Chief Financial Officer	Donna Boxer, CPA
Chief Development Officer	T.R. Hickey
Director, Rail Operations	Chris Henry

Virginia Railway Express
Organizational Chart
August 5, 2014



* Note: *Manager of Safety and Security reports to the CEO in matters related to safety and security*
Senior Contract Specialist reports to the CEO in matters related to their duties as DBE liason
Personnel Specialist reports to the CEO in matters related to EEO

Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Honorable Operations Board Members and Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Railway Express (VRE), a joint venture of the Northern Virginia Transportation Commission and the Potomac and Rappahannock Transportation Commission, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to VRE's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VRE's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Railway Express, as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 8-16 and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise VRE’s basic financial statements. The introductory section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014 on our consideration of VRE’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VRE’s internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
October 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the Virginia Railway Express' activities and performance provides the reader with an introduction and overview of the financial statements of the Virginia Railway Express (VRE) for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found on pages 1-3 of this report and the financial statements which begin on page 17.

Financial Operations and Highlights

- Operating revenues increased by 6.6 percent compared to the prior year, from $34,972,487 to $37,291,391 the result, in part, of a 4 percent fare increase at the beginning of the fiscal year. Ridership decreased 2.1 percent from 4,643,898 to 4,547,911. This decrease is not considered significant for a system operating close to capacity during peak service periods.
- Operating expenses increased by 8.3 percent from $60,719,529 to $65,764,181 as the result of regular contractual increases, costs associated with the lengthening of certain trains, track and canopy repairs, and reclassifications from construction in progress to certain expense accounts.
- Non-operating revenue increased by 5.1 percent from $49,205,790 to $51,720,337 primarily as the result of a larger state operating grant and grant – funded station and yard repair projects.
- Capital grants and assistance increased by 309.2 percent from $2,571,878 to $10,522,989 as a result of a $2,500,000 in-kind contribution from CSXT for the construction of a third mainline from Hamilton to Crossroads and an increased level of capital grant reimbursement activity compared to the prior fiscal year.
- The operating loss before depreciation was $28,472,790, an increase from the previous year of 10.6 percent. Local, federal and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net position increased by $11,376,568 from $272,851,551 to $284,228,119 primarily as the result of grants and contributions for capital improvements. At the end of the fiscal year, unrestricted net position was $46,973,386.
- During the fiscal year, capital assets, net of accumulated depreciation and amortization, decreased by 2.9 percent, as the combined result of the recognition of annual depreciation and amortization and the write-off of certain prior year amounts, combined with new project construction.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the basic financial statements of the Virginia Railway Express. VRE's basic financial statements also include notes that provide more detail for some of the information in the basic statements.

Basic Financial Statements. VRE's statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to an enterprise using the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

VRE's basic financial statements are the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. Comparative data for the prior fiscal year is provided for all three statements.

The Statements of Net Position reports VRE's net position, the difference between assets and liabilities. Net position is one way to measure financial position, but the reader should also consider other indicators, such as the rate of growth of operating subsidies, passenger fare levels, ridership, general economic conditions, and the age and condition of capital assets.

The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues earned and expenses incurred during the reporting periods.

The Statements of Cash Flows provide information on cash receipts and cash payments during the reporting periods.

The basic financial statements can be found on pages 17-20 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21-44 of this report.

Financial Analysis

Statements of Net Position

As noted earlier, net position may serve over time as an indicator of financial strength, although other indicators should be considered as well. A condensed summary of VRE's Statement of Net Position at June 30, 2014, 2013, and 2012 is shown below:

Condensed Statements of Net Position

	2014	2013	2012
ASSETS:			
Current and other assets	$ 74,448,857	$ 59,825,280	$ 54,042,694
Capital assets, net	302,858,587	312,047,031	321,380,255
Total assets	377,307,444	371,872,311	375,422,949
LIABILITIES:			
Current portion of long-term debt	9,729,549	9,250,400	8,866,830
Other current liabilities	10,015,017	6,707,727	8,219,368
Non-current liabilities	73,334,759	83,062,633	92,367,288
Total liabilities	93,079,325	99,020,760	109,453,486
NET POSITION:			
Net investment in capital assets	220,069,396	220,007,440	220,396,390
Restricted	17,185,337	16,998,472	17,516,300
Unrestricted	46,973,386	35,845,639	28,056,773
Total net position	$ 284,228,119	$ 272,851,551	$ 265,969,463

Current Year

Net position increased by approximately $11.4 million, or 4.2 percent during the current fiscal year, due mainly to capital contributions that were used to fund system improvements.

The largest portion of VRE's net position, $220 million or 77.4 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment, software, and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net position, $17.2 million or 6.1 percent represents resources that are restricted for the liability insurance plan or future debt service payments.

Capital assets, net of accumulated depreciation and amortization, decreased approximately $9.2 million or 2.9 percent as the result of a combination of new project construction, annual depreciation and amortization, and the write-off of certain prior year amounts.

Current liabilities increased approximately $3.8 million or 23.7 percent as the result of an increase to accounts payable and accrued expenses, primarily related to the Hamilton to Crossroads third main track project.

Noncurrent liabilities decreased approximately $9.7 million or 11.7 percent because of scheduled bond and note repayments during the year.

Restricted net position increased approximately $.2 million or 1.1 percent.

Prior Year

Net position increased by approximately $6.9 million, or 2.6 percent, due mainly to capital contributions that were used to fund system improvements.

The largest portion of VRE's net position, $220 million or 80.6 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock, equipment, software, and accumulated depreciation and amortization), less the related indebtedness outstanding used to acquire those capital assets. VRE uses these assets to provide services to its riders; consequently, these assets are not available for future spending. The resources required to repay this debt must be provided annually from operations and federal (with PRTC as grantee), state and local support since it is unlikely that the capital assets themselves will be liquidated to pay liabilities.

A portion of VRE's net position, $17 million or 6.2 percent represents resources that are restricted for the liability insurance plan, debt service, and the purchase of replacement rolling stock.

Capital assets, net of accumulated depreciation and amortization, decreased approximately $9.3 million or 2.9 percent as the result of a combination of lower expenditures on new projects, annual depreciation and amortization, and the sale of obsolete rolling stock.

Current liabilities decreased approximately $1.1 million or 6.6 percent as the result of a decrease to accounts payable, accrued expenses and contract retainage at year end.

Noncurrent liabilities decreased approximately $9.3 million or 10.0 percent because of scheduled bond and note repayments during the year.

Restricted net position decreased approximately $.5 million or 3.0 percent.

Statements of Revenues, Expenses and Changes in Net Position

The following financial information was derived from the Statements of Revenues, Expenses and Changes in Net Position and reflects how VRE's net position changed during the current and two prior fiscal years.

	2014	2013	2012
Operating revenues:			
Passenger revenue	$ 37,093,476	$ 34,733,106	$ 34,721,591
Equipment rentals and other	197,915	239,381	304,184
Total operating revenues	37,291,391	34,972,487	35,025,775
Non-operating revenues:			
Subsidies:			
Commonwealth of Virginia	19,330,105	14,967,197	12,711,602
Federal – with PRTC as grantee	15,931,876	18,559,490	17,181,121
Jurisdictional contributions	16,428,800	16,428,800	15,943,917
Interest income	28,056	19,345	17,974
Gain (loss) on disposal of assets	1,500	(769,042)	(358,382)
Total non-operating revenues	51,720,337	49,205,790	45,496,232
Total revenues	89,011,728	84,178,277	80,522,007
Operating expenses:			
Contract operations and maintenance	23,151,332	21,751,488	21,093,606
Other operations and maintenance	14,891,502	12,785,223	14,594,826
Property leases and access fees	13,924,017	13,504,023	13,123,367
Insurance	3,991,969	4,022,072	3,491,620
Marketing and sales	2,012,321	1,872,344	2,211,354
General and administrative	7,793,040	6,784,379	7,111,871
Total operating expenses	65,764,181	60,719,529	61,626,644
Other expenses:			
Depreciation and amortization	14,706,458	14,465,444	13,373,129
Interest, financing costs and other	4,026,724	4,683,094	5,215,017
Total other expenses	18,733,182	19,148,538	18,588,146
Total expenses	84,497,363	79,868,067	80,214,790
Excess before capital contributions and extraordinary item	4,514,365	4,310,210	307,217
Capital grants and assistance:			
Commonwealth of Virginia	2,464,628	974,115	2,027,872
Federal – with PRTC as grantee	5,420,552	1,269,732	9,997,070
In-kind and other local contributions	2,637,809	328,031	46,924
Total capital grants and assistance	10,522,989	2,571,878	12,071,866
Extraordinary item	(3,660,786)	-	-
Change in net position	11,376,568	6,882,088	12,379,083
Net position – beginning of year	272,851,551	265,969,463	253,590,380
Net position – end of year	$ 284,228,119	$ 272,851,551	$ 265,969,463

Revenues

Current Year

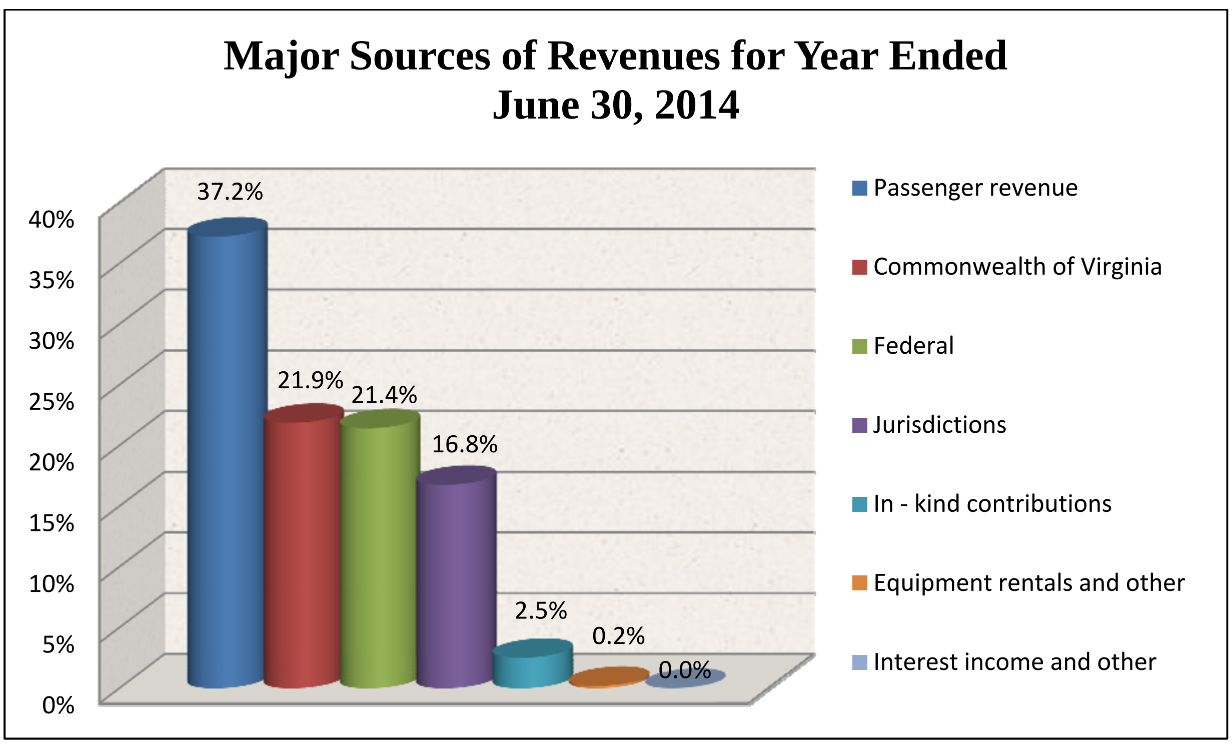
Total revenues for the current fiscal year increased approximately $4.8 million or 5.7 percent. Operating revenues totaled approximately $37.3 million, an increase of 6.7 percent from the prior year. Jurisdictional subsidies were held constant between the two fiscal years, while state and federal subsidies increased by $1.7 million. The major change to state and federal subsidies was a shift in the source of grant funds for track access costs, and increases to the state operating subsidy and grant-funded yard and station repair projects.

Passenger revenue increased approximately $2.4 million or 6.8 percent as the result of 4 percent fare increase coupled with changes to use of transit benefits and types of fare media.

	June 30,		
	2014	2013	2012
Ridership	4,547,911	4,643,898	4,771,987
% Increase (Decrease)	(2.1%)	(2.7%)	5.6%

Capital grants and assistance increased approximately $8.0 million or 309.2 percent; this increase is attributed primarily to capital grant reimbursement activity and a $2.5 million in-kind contribution related to the Hamilton to Crossroads third main track project.

The following chart shows the major sources of revenues for the year ended June 30, 2014:



Prior Year

Total revenues increased approximately $3.6 million or 4.5 percent. Operating revenues totaled approximately $35.0 million, a decrease of .2 percent from the prior year. Jurisdictional subsidies increased by $.5 million or 3.0 percent.

Passenger revenue increased approximately $.01 million or .03 percent as the result of a decrease in ridership coupled with a fare increase.

Capital grants and assistance decreased approximately $9.5 million or 78.7 percent; this decrease is primarily attributed to the completion of the locomotive purchase project in the prior fiscal year. Jurisdictional subsidies increased by $.5 million or 3.0 percent.

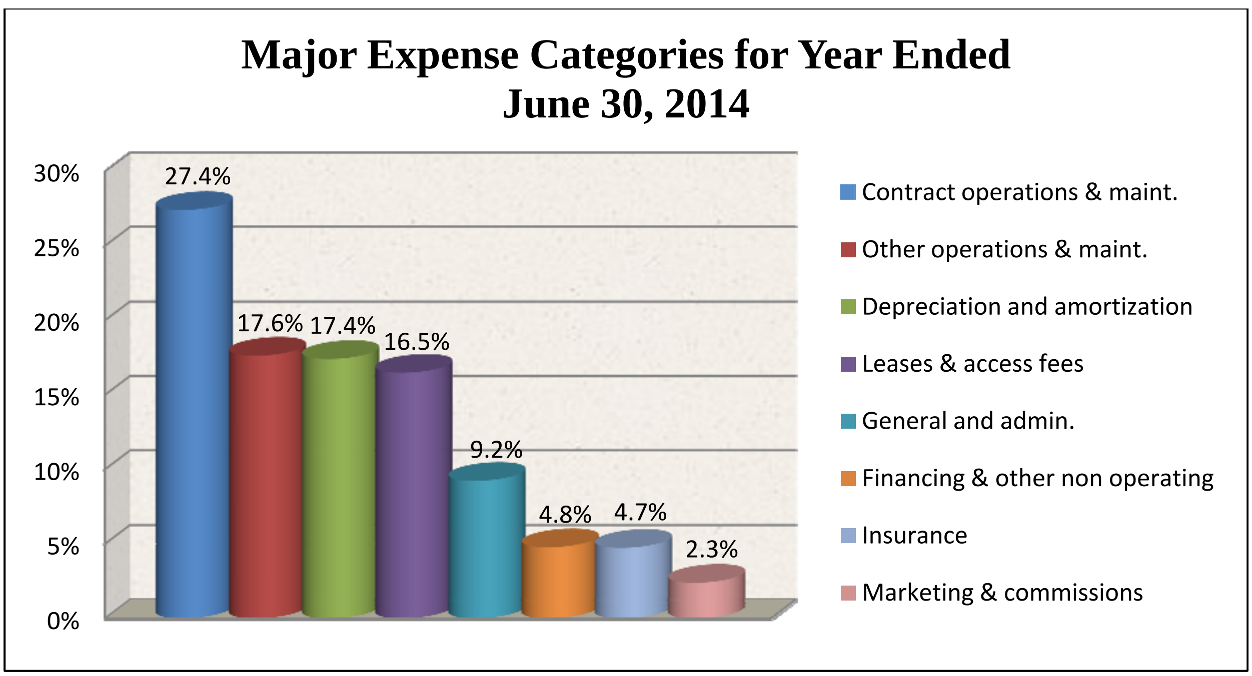
Expenses

Current Year

Total operating and other expenses, including depreciation and amortization, increased approximately $4.6 million or 5.8 percent. Operating expenses increased by $5.0 million or 8.3 percent. Total operating expenses were approximately $65.8 million compared to approximately $60.7 million for the prior fiscal year.

Property lease and access fee costs increased by approximately $.4 million or 3.1 percent as the result of regular contractual increases. Other operations and maintenance costs increased by $2.1 million or 16.5 percent due to the beginning of a cycle of four year overhauls for the locomotive fleet, increased costs for data communication lines, the cost of a yard track replacement project, and a reclassification to expense of a station rehabilitation project. Contract operations and maintenance increased by $1.4 million or 6.4 percent due to regular contractual increases, costs associated with the lengthening of certain trains and a canopy repair project at Washington Union Terminal. General and administrative costs increased by $1.0 million or 14.9 percent as the result of a reclassification to professional services from the construction in progress account for studies completed in prior years. Depreciation and amortization increased by approximately $.2 million or 1.7 percent and net interest and financing costs decreased by $.7 million or 14.0 percent.

The following chart shows the major expense categories for the year ended June 30, 2014:



Prior Year

Total operating and other expenses, including depreciation and amortization, decreased approximately $.3 million or 0.01 percent. Operating expenses decreased by $.9 million or 1.5 percent. Total operating expenses were approximately $60.7 million compared to approximately $61.6 million for the prior fiscal year.

Property lease and access fee costs increased by approximately $.4 million or 2.9 percent as the result of regular contractual increases. Other operations and maintenance costs decreased by $1.8 million or 12.4 percent due to decreases to fuel and equipment maintenance costs. Marketing and sales costs decreased by $.34 million or 15.3 percent as the result of lower media advertising. General and administrative costs decreased by $.33 million or 4.6 percent. Insurance costs increased by $.53 million or 15.2 percent as a result of a premium credit in fiscal year 2012. Depreciation and amortization increased by approximately $1.1 million or 8.2 percent and net interest and financing costs decreased by $.5 million or 10.2 percent.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2014 amounts to $303 million (net of accumulated depreciation and amortization). Investment in capital assets includes the items identified in the table below. Acquisitions are funded using a variety of financing techniques, including loans and grants from various government agencies and other local sources.

	2014	2013	2012
Rolling stock	$ 228,936,835	$ 228,936,835	$ 232,917,506
Vehicles	78,664	99,832	99,832
Facilities	102,449,961	101,909,065	94,688,877
Track and signal improvements	52,684,367	52,684,367	52,684,367
Equipment and software	10,342,844	8,933,997	8,739,939
Construction in progress	13,638,856	10,125,129	12,849,876
Equity in property of others	5,787,287	5,787,287	5,244,798
Furniture, equipment and software	5,514,546	5,461,502	5,409,010
	419,433,360	413,938,014	412,634,205
Less accumulated depreciation and amortization	(116,574,773)	(101,890,983)	(91,253,950)
Total capital assets, net	$ 302,858,587	$ 312,047,031	$ 321,380,255

Current Year

During fiscal year 2014, capital assets decreased approximately $9.2 million or 2.9 percent, from the result of the recognition of annual depreciation and amortization and the write-off of certain prior year amounts, combined with new project construction. Completed projects totaling approximately $1.9 million were transferred from construction in progress to their respective capital accounts and an additional $.07 million was charged directly to the capital accounts.

The major completed projects were: the fare system upgrade project ($.9 million); the lighting upgrade project at Franconia and Backlick stations ($.4 million); and the installations of security cameras at various stations ($.3 million). The major additions to construction in progress during the fiscal year were for the construction of a third track between Hamilton and Crossroads in Spotsylvania County ($9.4 million); the construction of 15 replacement railcars ($.6 million); and the development of a mobile ticketing system ($.2 million).

During fiscal year 2014, $1.9 million of costs recorded as construction in progress in prior years were reclassified from the capital accounts to maintenance expenses ($.9 million) and professional services ($1.0 million). In addition, $3.6 million of costs recorded as construction in progress in prior years for preliminary engineering related to the Cherry Hill track project were expensed as an extraordinary item because the construction of the track will now be carried out by the Virginia Department of Rail and Public Transportation.

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

Prior Year

During fiscal year 2013, capital assets decreased approximately $9.3 million or 2.9 percent, from the result of annual depreciation and amortization recognized, combined with an overall decrease in new project construction. Completed projects totaling approximately $7.9 million were closed from construction in progress to their respective capital accounts and an additional $.09 million was charged directly to the capital accounts. Two older locomotives were sold during the year for a net loss of approximately $12,000.

The major completed projects were: the construction of additional parking at the Brooke and Leeland stations ($3.8 million); the construction of a warehouse facility at the Crossroads yard ($2.8 million); and the construction of a standby power supply at the Ivy City yard ($.5 million). The major additions to construction in progress during the fiscal year were for the construction of replacement railcars, canopy improvements at Washington Union Terminal, the construction of a new station in Spotsylvania County, and the construction of a third track between Hamilton and Crossroads in Spotsylvania County.

Debt Administration

At June 30, 2014, VRE had total debt outstanding of $82,789,191. The revenue bonds debt is issued under the name of the Northern Virginia Transportation Commission (NVTC). The bonds are secured by a pledge of VRE revenue, and a debt service insurance policy guarantees payment of each bond series.

The Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC) are co-lessees of the capital lease for rolling stock, which is secured by the related equipment. The promissory note with the Federal Railroad Administration for the purchase of 60 Gallery railcars was issued by NVTC, but both NVTC and PRTC are signatories. The note is secured by the revenues of VRE and the rolling stock.

	2014	2013	2012
Revenue bonds	$ 6,555,000	$ 12,775,000	$ 18,685,000
Capital leases	16,535,611	17,668,825	18,751,762
Notes payable (includes RRIF)	59,698,580	61,595,766	63,729,659
Total	$ 82,789,191	$ 92,039,591	$ 101,166,421

Prior to March 1, 2014, VRE had access to a line of credit of up to $1 million with SunTrust Bank; a new line will be established with PNC Bank during fiscal year 2015. The line was not utilized during 2014. For further information, please refer to Notes 7 and 8 of the financial statements.

Economic Factors and Next Year's Budget

Population growth in Northern Virginia, especially in the outer suburbs, continues to remain robust. In combination with the congestion on major highways and on-going highway construction projects, this growth will continue to increase demand for VRE's service. The constraining factors to VRE growth are station parking, availability of seats, storage capacity, and the availability of subsidy funds.

No general fare increase was budgeted for fiscal year 2015, following a fare increase of 4% the prior year. The local subsidy for fiscal year 2015 was held constant at $16,428,800. Additional sources of funding will be available in fiscal year 2015 from federal, state and regional sources, although the amounts received will continue to vary from year to year.

Request for Information

This financial report is designed to provide a general overview of VRE's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Virginia Railway Express, 1500 King Street, Alexandria, Virginia 22314-2730 or by e-mail to dboxer@vre.org.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET POSITION
June 30, 2014 and 2013

ASSETS	**2014**	2013
Current Assets:		
Cash and cash equivalents	**$ 37,374,578**	$ 23,376,754
Accounts receivable:		
Due from PRTC – FTA and other	**9,201,817**	9,838,627
Commonwealth of Virginia grants	**5,168,385**	3,748,152
Trade receivables, net of allowance for doubtful accounts	**1,636,321**	1,565,293
Other receivables	**71,171**	342,442
Inventory	**3,639,352**	3,515,707
Prepaid expenses and other	**171,896**	439,833
Restricted cash, cash equivalents and investments	**17,185,337**	16,998,472
Total current assets	**74,448,857**	59,825,280
Capital assets:		
Rolling stock	**228,936,835**	228,936,835
Vehicles	**78,664**	99,832
Facilities	**102,449,961**	101,909,065
Track and signal improvements	**52,684,367**	52,684,367
Equipment and software	**10,342,844**	8,933,997
Construction in progress	**13,638,856**	10,125,129
Equity in property of others	**5,787,287**	5,787,287
Furniture, equipment and software	**5,514,546**	5,461,502
	419,433,360	413,938,014
Less accumulated depreciation and amortization	**(116,574,773)**	(101,890,983)
Total capital assets, net	**302,858,587**	312,047,031
Total assets	**$ 377,307,444**	$ 371,872,311

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	**2014**	2013
Current Liabilities:		
Accounts payable	**$ 2,883,264**	$ 1,843,394
Payable to Commissions	**567,741**	880,808
Compensated absences	**45,965**	32,984
Accrued expenses	**4,137,679**	1,710,883
Accrued interest	**421,536**	601,145
Unearned revenue	**1,772,855**	1,609,214
Contract retainage	**185,977**	29,299
Current portion of bonds payable	**6,555,000**	6,220,000
Current portion of capital lease obligations	**1,185,825**	1,133,214
Current portion of note payable	**1,988,724**	1,897,186
Total current liabilities	**19,744,566**	15,958,127
Noncurrent Liabilities:		
Bonds payable, net	**-**	6,555,000
Capital lease obligations	**15,349,786**	16,535,611
Note payable	**57,709,856**	59,698,580
Compensated absences	**275,117**	273,442
Total noncurrent liabilities	**73,334,759**	83,062,633
Total liabilities	**93,079,325**	99,020,760
Net Position:		
Net investment in capital assets	**220,069,396**	220,007,440
Restricted for liability insurance plan	**10,454,171**	10,294,874
Restricted for debt service and capital lease	**6,731,166**	6,563,328
Restricted grants or contributions	**-**	140,270
Unrestricted assets	**46,973,386**	35,845,639
Total net position	**284,228,119**	272,851,551
Total liabilities and net position	**$ 377,307,444**	$ 371,872,311

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues:		
Passenger revenue	**$ 37,093,476**	$ 34,733,106
Equipment rentals and other	**197,915**	239,381
Total operating revenues	**37,291,391**	34,972,487
Operating Expenses:		
Contract operations and maintenance	**23,151,332**	21,751,488
Other operations and maintenance	**14,891,502**	12,785,223
Property leases and access fees	**13,924,017**	13,504,023
Insurance	**3,991,969**	4,022,072
Marketing and sales	**2,012,321**	1,872,344
General and administrative	**7,793,040**	6,784,379
Total operating expenses	**65,764,181**	60,719,529
Operating loss before depreciation and amortization	**(28,472,790)**	(25,747,042)
Depreciation and amortization	**(14,706,458)**	(14,465,444)
Operating loss	**(43,179,248)**	(40,212,486)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	**19,330,105**	14,967,197
Federal grants – with PRTC as grantee	**15,931,876**	18,559,490
Jurisdictional contributions	**16,428,800**	16,428,800
Interest income:		
Operating funds	**27,860**	18,573
Other restricted funds	**196**	772
Gain (loss) on disposal of assets	**1,500**	(769,042)
Interest, amortization and other nonoperating expenses, net	**(4,026,724)**	(4,683,094)
Total nonoperating revenues, net	**47,693,613**	44,522,696
Capital grants and assistance:		
Commonwealth of Virginia grants	**2,464,628**	974,115
Federal grants – with PRTC as grantee	**5,420,552**	1,269,732
In-kind and other local contributions	**2,637,809**	328,031
Total capital grants and assistance	**10,522,989**	2,571,878
Extraordinary item (Note 3)	**(3,660,786)**	-
Change in net position	**11,376,568**	6,882,088
Net Position, beginning	**272,851,551**	265,969,463
Net Position, ending	**$ 284,228,119**	$ 272,851,551

See Notes to Financial Statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Receipts from customers	**$ 37,379,149**	$ 35,018,388
Payments to suppliers	**(58,161,443)**	(56,830,733)
Payments to employees	**(5,001,139)**	(4,229,062)
Net cash used in operating activities	**(25,783,433)**	(26,041,407)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	**55,901,311**	50,988,335
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(5,748,875)**	(6,519,551)
Capital grants and assistance	**3,244,363**	11,777,856
Proceeds from sale of capital assets	**-**	240,000
Principal paid on capital lease obligations	**(1,133,214)**	(1,082,937)
Principal paid on notes	**(1,897,186)**	(2,133,893)
Principal paid on bonds	**(6,220,000)**	(5,910,000)
Interest paid on capital lease obligation	**(798,142)**	(848,420)
Interest paid on bonds and notes	**(3,408,191)**	(3,818,804)
Net cash used in capital and related financing activities	**(15,961,245)**	(8,295,749)
Cash Flows From Investing Activities:		
Interest received on investments	**28,056**	19,345
Increase in cash and cash equivalents	**14,184,689**	16,670,524
Cash and Cash Equivalents, beginning	**40,375,226**	23,704,702
Cash and Cash Equivalents, ending	**$ 54,559,915**	$ 40,375,226
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	**$ (43,179,248)**	$ (40,212,486)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	**14,706,458**	14,465,444
Loss on disposal of assets	**1,945,039**	-
(Increase) decrease in:		
Accounts receivable	**(71,028)**	(190,529)
Other receivables	**(4,855)**	1,047
Inventory	**(62,849)**	(99,853)
Prepaid expenses and other	**267,937**	66,417
Increase (decrease) in:		
Accounts payable and accrued expenses	**451,472**	(306,830)
Unearned revenue	**163,641**	235,383
Net cash used in operating activities	**$ (25,783,433)**	$ (26,041,407)
Schedule of Noncash Capital Activities:		
Capital assets acquired through accounts payable	**$ 1,149,530**	$ 564,294
Capital assets acquired through accrued liabilities	**2,193,678**	62,219
Capital assets acquired through in-kind contributions	**2,500,000**	-
Inventory acquired through in-kind contributions	**60,796**	-

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, which consists of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia’s Department of Rail and Public Transportation. The system is not currently configured for fare revenues alone to produce positive operating income. In addition to fares, the project is financed with proceeds from the Commuter Rail Revenue Bonds, a federal loan, a lease financing, Federal (with PRTC as grantee) and Commonwealth of Virginia grants, and jurisdictional contributions apportioned through a formula based on ridership, supplemented by voluntary donations from contributing jurisdictions. Grants and contributions fund both operations and capital projects. Participating jurisdictions include the counties of Fairfax, Prince William, Spotsylvania and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia. In February 2010 the VRE Master Agreement was amended to include Spotsylvania County as a participating jurisdiction. Spotsylvania County’s share of the VRE annual subsidy from February 2010 through the middle of fiscal year 2013 was deferred until 60 days after the beginning of fiscal year 2013.

In July 2007, the Commissions adopted amendments to the VRE Master Agreement that expanded the Operations Board to include all member jurisdictions and provided for board representation proportionate to system ridership, and weighted voting proportionate to jurisdictional subsidy. In addition, the amendments apportioned jurisdictional subsidies on system ridership only, rather than the former 90 percent system ridership and 10 percent population formula. The amendment to the subsidy formula was phased in over four years, beginning in fiscal year 2008. The amendments also allowed for greater autonomy for the Operations Board, with progressively more decisions made by the Board without referral to PRTC and NVTC.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting

VRE prepares its financial statements using the accrual basis of accounting. The activities of VRE are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Revenues and expenses**:** VRE distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services in connection with VRE's principal ongoing operation. The principal operating revenues of VRE are charges to customers which result in passenger revenues. Passenger revenues are recorded as revenue at the time services are performed. Cash received for services in advance is deferred until earned.

Operating revenues and expenses also include all revenues and expenses not associated with capital and related financing, noncapital financing, subsidies, or investing activities.

Revenue recognition**:** Intergovernmental revenues, consisting primarily of Federal (with PRTC as grantee) and Commonwealth of Virginia (with NVTC as grantee) grants, designated for payment of specific expenses, are recognized at the time the expenses are incurred. Capital grants and assistance are recognized as additions are made to capital assets and other contributions are included in the Statements of Revenues, Expenses and Changes in Net Position when expended. Any excess of grant revenues or expenses at year end are recorded as unearned revenue or accounts receivable, respectively.

Cash and investments**:** VRE considers all highly liquid investments with maturities of three months or less to be cash equivalents. Investments in U.S. government securities and commercial paper are carried at fair value based on quoted market prices. The investment in the Local Government Investment Pool (LGIP or Pool), a 2a7-like pool, is reported at the Pool's share price.

Restricted cash and cash equivalents**:** Restricted cash, cash equivalents and investments of $17,185,337 and $16,998,472 at June 30, 2014 and 2013, respectively, are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, proceeds from the sale of rolling stock and a small liability claims account.

Allowance for uncollectible accounts**:** VRE calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance was $186,000 and $174,000 at June 30, 2014 and 2013, respectively.

Inventory**:** VRE has purchased an inventory of spare parts for rolling stock that is maintained and managed at the Commission's warehouse located at the Crossroads yard. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

Prepaid expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements using the consumption method.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

***Capital assets*:** For constructed assets, all costs necessary to bring assets to the condition and location necessary for the intended use are capitalized. Asset costs include allocation of certain common construction costs based on the relationship of associated direct costs. Assets constructed directly by jurisdictions in satisfaction of system financial responsibilities have been capitalized at the estimated fair market value as of the date of donation.

When assets are substantially complete and ready for use, these costs are transferred from construction in progress to property and equipment and depreciated or amortized. Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements and replacements are expensed.

Costs of improvements to track, stations and signal facilities owned by the railroads have been capitalized in recognition of the increased efficiency afforded VRE operations over their useful lives. The Commissions retain a residual interest in these assets such that net salvage value will be reimbursed by the railroads upon cessation of commuter rail service. Similarly, shared investment in jurisdictional facilities ("equity in property of others") recognizes the right of access for commuter rail patrons granted to the Commissions. This category also represents investment in Amtrak infrastructure and facilities that provides primary benefit to the commuter rail service and for which VRE has an expectation of continued use.

VRE capitalizes assets that have an initial cost of $5,000 or more per unit and a useable life of two or more years, with the exception of software purchases, which are only capitalized if the initial cost is $15,000 or more.

Interest is capitalized on qualifying construction in progress projects until they have reached the point of substantial completion. For those projects financed with tax-exempt debt, the amount of capitalized interest equals the difference between the interest cost associated with the borrowing to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized using the straight-line method over the useful life of the asset.

Depreciation and amortization of all exhaustible equipment, buildings and intangibles is charged as an expense against operations using the straight-line method over the following estimated useful lives:

Rolling stock	8-25 years
Vehicles	5 years
Facilities	30-40 years
Track and signal improvements	30 years
Equipment and software	5 years
Equity in property of others	3-35 years
Furniture, equipment and software	3-10 years

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as a non-operating expense. There were no impaired assets as of June 30, 2014.

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting (Continued)

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

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

Note 2. Cash, Cash Equivalents and Investments

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

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

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

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

Credit risk: The investment policy specifies credit quality for certain types of investments, as described below, in accordance with the *Code of Virginia*, and the policy specifies the qualifications for institutions providing depository and investment services. In addition, the Chief Financial Officer must conduct a quarterly review of the condition of each authorized financial institution and broker/dealer.

Investment	Credit Quality
Savings account or CD's of any bank or savings and loan association within the Commonwealth of Virginia	Bank or savings and loan association must be a "qualified public depository"
Bankers' acceptances	Institution must be "prime quality" as determined by one or more recognized rating services
Commercial paper	Must be "prime quality" as rated by two of the following: Moody's (prime 1): S&P (A-1); Fitch (F-1); Duff and Phelps (D-1)
Corporate notes	Must be "high quality" as defined by ratings of at least AA by S&P and Aa by Moody's
Negotiable certificates of deposit and negotiable bank deposit notes	Must have ratings of at least A-1 by S&P and P-1 by Moody's for short term instruments and AA by S&P and Aa by Moody's for long term instruments.

Custodial credit risk: For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, VRE may not recover its deposits. All cash of VRE is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. If any member bank fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. With the ability to make additional assessments, the multiple bank collateral pool functions similarly to depository insurance. The Commonwealth of Virginia Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act. At June 30, 2014, the book balance of VRE's deposits with banks was $3,394,834.

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

Interest rate risk: In accordance with its investment policy, VRE manages its exposure to declines in fair values by limiting the maturity of various investment vehicles, as indicated in the chart below.

Concentration of credit risk: VRE's investment policy provides limitations on the percentage of the portfolio that can be invested in each type of security, as indicated in the following chart.

The limitations provided in the investment policy for maximum maturity and percentage of the portfolio for each category of investment are as follows:

Investment	Length of Maturity	Percent Allowed
Bonds, notes, and other evidence of indebtedness of the United States	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of the Commonwealth of Virginia	60 months or less	100%
Bonds, notes, and other evidence of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth of Virginia	36 months or less	100%
Bonds and notes of FNMA and FHLB	36 months or less	75%
Savings accounts or CD's of any bank or savings and loan association within the Commonwealth of Virginia	12 months or less	20%
Money market mutual funds	13 months or less	60%
Repurchase agreements	24 months or less	20%
Bankers' acceptances	24 months or less	10%
Prime Quality Commercial Paper (no more than 5% from one issuer)	270 days or less	35%
High Quality Corporate Notes	24 months or less	50%
Certificates representing ownership in treasury bond principal	24 months or less	50%
LGIP	N/A	100%
Negotiable CD's and negotiable bank deposit notes	24 months or less	25%

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

At June 30, 2014, VRE had investments of $34,032,571 in the LGIP. The LGIP is a professionally managed money market fund that invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at the Treasury Board's regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of $1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's.

The Commonwealth of Virginia Department of Treasury manages the VRE Insurance Trust. State statutes govern the portion of assets invested in the Commonwealth's pooled accounts, while the remainder is invested by an external portfolio manager. At June 30, 2014, VRE had $10,401,194 invested in the Insurance Trust. Beginning with fiscal year 2011, any earnings on these investments are retained by the Commonwealth of Virginia. The Insurance Trust Fund has not been assigned a rating.

Accumulated bond interest and principal payments in the amount of $6,731,166 at June 30, 2014 were held by the bond trustee, U.S. Bank, in U.S. Treasury money market accounts. Investments in U. S. Treasury money market accounts at U.S. Bank have been assigned a "AAAm" rating by Standard & Poor's.

As of June 30, 2014, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	$ 34,032,571	$ 34,032,571
Insurance trust fund – pooled funds	10,401,194	10,401,194
Money market funds – U. S. Treasuries	6,731,166	6,731,166
Total investments	$ 51,164,931	$ 51,164,931

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Construction in progress	$ 10,125,129	$ 11,045,380	$ (7,531,653)	$ 13,638,856
Capital assets being depreciated or amortized:				
Rolling stock	228,936,835	-	-	228,936,835
Vehicles	99,832	1,500	(22,668)	78,664
Facilities	101,909,065	-	540,896	102,449,961
Track and signal improvements	52,684,367	-	-	52,684,367
Equipment and software	8,933,997	10,894	1,397,953	10,342,844
Equity in property of others	5,787,287	-	-	5,787,287
Furniture, equipment and software	5,461,502	53,044	-	5,514,546
Total capital assets being depreciated or amortized	403,812,885	65,438	1,916,181	405,794,504
Less accumulated depreciation or amortization for:				
Rolling stock	43,285,083	8,921,626	-	52,206,709
Vehicles	78,414	11,906	(22,668)	67,652
Facilities	26,339,913	3,026,420	-	29,366,333
Track and signal improvements	17,858,498	1,789,734	-	19,648,232
Equipment and software	8,096,244	333,650	-	8,429,894
Equity in property of others	2,957,076	169,898	-	3,126,974
Furniture, equipment and software	3,275,755	453,224	-	3,728,979
Total accumulated depreciation or amortization	101,890,983	14,706,458	(22,668)	116,574,773
Total capital assets being depreciated or amortized, net	301,921,902	(14,641,020)	1,938,849	289,219,731
Totals	$ 312,047,031	$ (3,595,640)	$ (5,592,804)	$ 302,858,587

Note: During the current fiscal year, projects totaling approximately $5.6 million were expensed. $3.7 million related to the Cherry Hill track project (recorded as an extraordinary item) was written off due to the Virginia Department of Rail and Public Transportation assuming responsibility for the project. The remaining $1.9 million related to capitalized costs were reclassified to operating expenses.

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Construction in progress	$ 12,849,876	$ 5,196,573	$ (7,921,320)	$ 10,125,129
Capital assets being depreciated or amortized:				
Rolling stock	232,917,506	-	(3,980,671)	228,936,835
Vehicles	99,832	-	-	99,832
Facilities	94,688,877	-	7,220,188	101,909,065
Track and signal improvements	52,684,367	-	-	52,684,367
Equipment and software	8,739,939	8,895	185,163	8,933,997
Equity in property of others	5,244,798	26,521	515,968	5,787,287
Furniture, equipment and software	5,409,010	52,492	-	5,461,502
Total capital assets being depreciated or amortized	399,784,329	87,908	3,940,648	403,812,885
Less accumulated depreciation or amortization for:				
Rolling stock	38,199,341	8,914,153	(3,828,411)	43,285,083
Vehicles	66,127	12,287	-	78,414
Facilities	23,539,785	2,800,128	-	26,339,913
Track and signal improvements	16,066,795	1,791,703	-	17,858,498
Equipment and software	7,781,080	315,164	-	8,096,244
Equity in property of others	2,797,202	159,874	-	2,957,076
Furniture, equipment and software	2,803,620	472,135	-	3,275,755
Total accumulated depreciation or amortization	91,253,950	14,465,444	(3,828,411)	101,890,983
Total capital assets being depreciated or amortized, net	308,530,379	(14,377,536)	7,769,059	301,921,902
Totals	$ 321,380,255	$ (9,180,963)	$ (152,261)	$ 312,047,031

Note 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2014 and 2013, these payments included $4,610,119 and $4,553,412 of salary-related costs and $5,523 and $5,090 of administrative costs, respectively, which are functionally classified with similar payments made directly to vendors and contractors. In addition, VRE pays the Commissions for direct labor and associated indirect costs incurred for services rendered under budgeted activities for VRE. These staff support payments totaled $80,000 and $70,000 to NVTC and $88,320 and $100,760 to PRTC during 2014 and 2013, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to approximately $3,191 and $5,435 in 2014 and 2013, respectively. Amounts payable to NVTC and PRTC were $98,916 and $468,825 at June 30, 2014 and $6,306 and $874,502, respectively, at June 30, 2013.

Note 5. Defined Benefit Pension Plan

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About VRS Plan 2** VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	**Eligible Members** Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as VRS Plan 1.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as VRS Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions they make.	**Vesting** Same as VRS Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.	**Service Retirement Multiplier** Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as VRS Plan 1	**Eligibility:** Same as VRS Plan 1 and VRS Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as VRS Plan 1	**Exceptions to COLA Effective Dates:** Same as VRS Plan 1 and VRS Plan 2.

Note 5. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as VRS Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as VRS Plan 1. **Defined Contribution Component:** Not applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 5. Defined Benefit Pension Plan (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00 percent member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00 percent member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, VRE is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The VRE's contribution rate for the fiscal year ended June 30, 2014 was 8.04 percent of annual covered payroll and 1.19 percent for group life insurance.

C. Annual Pension Cost

For fiscal year 2014, VRE's annual pension cost of **$**269,105 was equal to the VRE's required and actual contributions

Three-Year Trend Information for VRE

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 344,169	100.0%	$ -
June 30, 2013	274,958	100.0%	-
June 30, 2014	269,105	100.0%	-

The fiscal year 2014 required contribution was determined as part of the June 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2013 included (a) an investment rate of return (net of administrative expenses) of 7.00 percent, (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and (c) a cost-of-living adjustment of 2.50 percent per year for Plan1 employees and 2.25 percent for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the VRE's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. VRE's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Note 5. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 89.54 percent funded. The actuarial accrued liability for benefits was $11,021,316 and the actuarial value of assets was $9,868,961, resulting in an unfunded actuarial accrued liability (UAAL) of $1,152,355. The covered payroll (annual payroll of active employees covered by the plan) was $6,392,730, and ratio of the UAAL to the covered payroll was 18.03 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 6. Operating Leases and Agreements

Operating Access Agreements with the CSX and Norfolk Southern railroads provide the Commissions the right to use tracks owned by the railroads in the provision of commuter rail passenger service. These agreements require the Commissions to pay the railroads a monthly base fee and to reimburse the railroads for any incremental cost incurred by the railroads as a result of providing tracks for commuter rail service. For the years ended June 30, 2014 and 2013, annual track usage fees totaled approximately $8,243,800 and $7,991,000, respectively, and facility and other identified costs totaled approximately $507,000 and $465,000, respectively.

The agreement between Amtrak and the Commissions for access to and storage of equipment at Union Station and mid-day maintenance, electrical power and other services became effective on June 28, 2010. For the years ended June 30, 2014 and 2013, costs for track access and equipment storage totaled approximately $5,516,000 and $5,392,000, respectively, and mid-day maintenance, utility and other services totaled approximately $4,798,000 and $3,817,000, respectively. Cost adjustments will be made in fiscal year 2015 to reflect changes to various published cost indices and the number of trains that have access to and are stored and serviced at the terminal. A new agreement will be in effect for the period beginning July 1, 2015.

The Commissions have a contract with Keolis Rail Services Virginia, LLC for train operations and maintenance for a five year period beginning June 25, 2010. The cost of train operations and maintenance for the years ended June 30, 2014 and 2013 totaled approximately $18,361,000 and $17,945,000, respectively. Costs are based on an annual budget prepared in advance. Costs in fiscal year 2015 will be adjusted for service additions or deletions and annual changes to the Consumer Price Index. A new contract will be in effect for the period beginning July 1, 2015.

Note 7. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2014:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 12,775,000	$ -	$ (6,220,000)	$ 6,555,000	$ 6,555,000
Capital Lease	17,668,825	-	(1,133,214)	16,535,611	1,185,825
Note Payable	61,595,766	-	(1,897,186)	59,698,580	1,988,724
	92,039,591	-	(9,250,400)	82,789,191	9,729,549
Compensated Absences	306,426	256,310	(241,654)	321,082	45,965
	$ 92,346,017	$ 256,310	$ (9,492,054)	$ 83,110,273	$ 9,775,514

Federal arbitrage regulations apply to VRE's revenue bonds and the Gallery IV capitalized lease.

Revenue Bonds:

The 1998 Series Bonds are payable from a pledge of revenues attributable to VRE, including government grants, local jurisdictional contributions and passenger revenue. A debt service insurance policy guarantees payment of each bond series. Mandatory debt service requirements consist of the following:

Years Ending June 30,	Principal	Interest	Total Required
2015	$ 6,555,000	$ 176,166	$ 6,731,166

The Indentures of Trust for the bonds require the maintenance of an operating reserve equivalent to one-third (33.3 percent) of annual budgeted operating expenses. As of June 30, 2014 and 2013, VRE designated $57,263,520 and $42,826,808 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 83.25 percent and 66.63 percent of budgeted operating expenses for June 30, 2014 and 2013, respectively.

Funds are invested by the Trustee pursuant to the Indentures of Trust and are classified as restricted. Funds held by the Trustee as of June 30, 2014 and 2013, are as follows:

	2014	2013
Bond Interest Fund	$ 176,166	$ 343,328
Bond Principal Fund	6,555,000	6,220,000
Total held by Trustee	$ 6,731,166	$ 6,563,328

Capitalized Lease - Gallery IV (11 cars)

$25,100,000 capitalized lease obligation; $965,679 due semi-annually, interest at 4.59%, maturing in 2025, collateralized with Gallery IV railcars with a carrying value of $19,678,138.	$16,535,611

Note 7. Long-Term Debt Obligations (Continued)

Future minimum lease payments as of June 30, 2014 are as follows:

Years Ending June 30,		Amount
2015	$	1,931,357
2016		1,931,357
2017		1,931,357
2018		1,931,357
2019		1,931,357
2020-2024		9,656,785
2025		1,931,357
Total minimum lease payments		21,244,927
Less amount representing interest		4,709,316
Present value of lease payments	$	16,535,611

Note Payable – Gallery IV (60 cars)

In fiscal year 2008, VRE entered into an agreement with the Federal Railroad Administration for a loan of up to $72.5 million to purchase 50 Gallery railcars; in fiscal year 2009 the terms were amended to include ten additional Gallery railcars. A series of sixteen promissory notes were originally authorized and during fiscal year 2013 the balances on the individual notes were combined into a consolidated note. The note is secured by the revenues of VRE and the railcars. The carrying value of the railcars was $88,527,996 at June 30, 2014.

$63,844,842 Promissory Note; due in quarterly maturities of $482,635 to $1,195,258 through March 2033, plus quarterly interest at 4.74%	$ 59,698,580

Mandatory debt service requirements are as follows:

Years Ending June 30,		Principal		Interest		Total Required
2015	$	1,988,724	$	2,794,789	$	4,783,513
2016		2,080,914		2,702,599		4,783,513
2017		2,188,783		2,594,730		4,783,513
2018		2,290,688		2,492,825		4,783,513
2019		2,401,211		2,382,302		4,783,513
2020-2024		13,857,116		10,060,447		23,917,563
2025-2029		17,543,880		6,373,683		23,917,563
2030-2033		17,347,264		1,786,786		19,134,050
	$	59,698,580	$	31,188,161	$	90,886,741

Note 8. Short-Term Debt

VRE has access to a revolving line of credit to finance certain grant-funded capital projects prior to the receipt of reimbursements from the grantor agencies. The most recent line of credit with SunTrust Bank terminated on February 28, 2014 and a new line will be established with PNC Bank during fiscal year 2015. The revolving line of credit was not used during the year ended June 30, 2014 or prior to its termination.

Note 9. Liability Insurance Plan

VRE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Virginia Department of Treasury, Division of Risk Management has established the terms of VRE's Commuter Rail Operations Liability Plan (the Insurance Plan). The Insurance Plan consists of a combination of self-insurance reserves and purchased insurance in amounts actuarially determined to meet the indemnification requirements of the Operating Access Agreements and the Purchase of Services Agreement and for liability and property damage. The Commissions indemnify each of the railroads in an amount up to $250,000,000 for any claims against persons or property associated with commuter rail operations. Settled claims have not exceeded commercial coverage during any of the past three fiscal years. The liability for incurred but not reported claims was approximately $213,000 at June 30, 2014 and $226,000 at June 30, 2013.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2006, all plan assets have been invested in the Department of Treasury common pool. Activity in the Insurance Trust Fund for the years ended June 30, 2014 and 2013 was as follows:

	2014	2013
Beginning balance, July 1	$ 10,241,951	$ 10,156,492
Contribution to reserves	4,150,000	4,100,000
Insurance premiums paid	(3,925,246)	(3,924,984)
Claims mitigation costs and losses incurred	(10,049)	(4,916)
Actuarial and administrative charges	(55,462)	(60,241)
Transfer to VRE for small liability claims	-	(24,400)
Ending balance, June 30	$ 10,401,194	$ 10,241,951

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

Note 10. Contingencies and Contractual Commitments

At June 30, 2014, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal (with PRTC as grantee) and Commonwealth of Virginia grants and local funds will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenses incurred as of June 30, 2014:

Stations and parking lots	$	7,352,426
Rolling Stock		37,518,680
Maintenance and layover yards		279,557
Track and signal improvements		20,802,010
Other administrative		3,569,124
Total	$	69,521,797

VRE has received proceeds from several federal (with PRTC as grantee) and state grant programs. In the event of an audit of these grants, certain costs may be questioned as not being appropriate expenses under the grant agreements. Such findings may result in the refund of grant monies to the grantor agencies. Based on VRE's policies and past experience, management believes that no refunds would be due in the case of an audit and, accordingly, no provision has been made in the accompanying financial statements for the refund of grant monies.

The federal grant agreements control the use and disposal of property acquired with federal grant funds. If property is removed from service prior to the end of its useful life, the grant recipient may be required to return to the grantor agency the federal assistance expended on that property. In addition, permission of the grantor agency is required if property is disposed of prior to the end of its useful life or at any time for an amount in excess of $5,000.

The Master Agreement for the use of Commonwealth of Virginia Transportation Funds control the use and disposal of property acquired with state grant funds. If any project equipment are not used for the purpose for which they were purchased for the duration of their useful lives, the Commonwealth has the option of requiring the grantee to relinquish title to the project equipment or remit an amount equal to the proportional share of the fair market value based upon the ratio of participation by the state. For facilities, the Commonwealth requires an amount equal to the proportional share of fair market value based upon the ratio of participation by the state to be remitted.

Note 11. Pending GASB Statements

At June 30, 2014, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by VRE. The statements which might impact VRE are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68,* requires a state or local government employer (or nonemployer contributing entity in a special funding situation), to recognize a net pension liability measured as of a date (the measurement date), no earlier than the end of its prior fiscal year. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Note 12. Subsequent Events

VRE entered into contracts at various times from June 2014 through September 2014 to purchase fuel at set prices for delivery in July 2014 through June 2015. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 882,000 gallons of fuel at a cost of approximately $2.7 million.

In June 2014 the VRE Operations Board recommended the Commissions forward to the jurisdictions an amendment to the Master Agreement for the Provision of Commuter Rail Service by the Commissions and Participating and Contributing Jurisdictions in order to comply with HB 2152 passed by the Virginia State Legislature in February 2013. HB 2152, as later amended by HB 957 in February 2014, requires a weighted vote on the VRE Operations Board for the Chairman of the Commonwealth Transportation Board or his designee effective July 1, 2015. The Commissions forwarded the proposed amendment to the jurisdictions in July 2014 for their approval and execution.

In August and September of 2014, six legacy Gallery railcars were sold to Chicago Metro for $500 each or a total of $3,000. The sale was approved by the Commissions in July 2014, following the recommendation of the Operations Board in June 2014. These railcars have been replaced in VRE service by new Gallery railcars.

In October 2014, the Commissions authorized the Chief Executive Officer of VRE to amend the contract with Sumitomo Corporation of America to place an order for five additional Gallery railcars and to increase the contract value by $10.5 million, following the recommendation of the Operations Board in September 2014.

Required Supplementary Information

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF FUNDING PROGRESS

Virginia Retirement System

The information below is derived from the actuarial valuation report for the Potomac & Rappahannock Transportation Commission, which consolidates information for both PRTC and VRE employees. No separate data on funding progress is available solely for VRE.

Actuarial Valuation as of June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Assets as % of AAL	Annual Covered Payroll	UAAL as a % of Covered Payroll
2013	$ 9,868,961	$ 11,021,316	$ 1,152,355	89.54%	$ 6,392,730	18.03%
2012	8,783,862	10,544,864	1,761,002	83.30%	6,045,347	29.13%
2011	8,237,980	9,730,413	1,492,433	84.66%	5,751,116	25.95%

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Statistical Section

STATISTICAL SECTION

This portion of Virginia Railway Express' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the entity's overall financial health. Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGE IN NET POSITION
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Revenues:										
Passenger revenue	**$ 37,093,476**	$ 34,733,106	$ 34,721,591	$ 32,368,123	$ 30,019,730	$ 25,909,794	$ 21,688,092	$ 19,685,561	$ 19,453,436	$ 19,452,162
Equipment rentals and other	**197,915**	239,381	304,184	200,069	247,375	124,926	133,242	206,558	442,517	121,373
Total operating revenues	**37,291,391**	34,972,487	35,025,775	32,568,192	30,267,105	26,034,720	21,821,334	19,892,119	19,895,953	19,573,535
Nonoperating Revenues:										
Subsidies:										
Commonwealth of Virginia grants	**19,330,105**	14,967,197	12,711,602	12,806,509	13,153,781	13,482,816	10,795,443	12,269,884	13,137,477	7,613,022
Federal grants - with PRTC as grantee	**15,931,876**	18,559,490	17,181,121	16,157,284	14,525,795	12,784,123	12,522,868	12,741,069	10,721,335	8,124,763
Jurisdictional contributions	**16,428,800**	16,428,800	15,943,917	16,070,307	16,376,968	17,275,500	13,379,155	8,802,762	6,878,061	6,352,999
Capital Grants and Assistance:										
Commonwealth of Virginia grants	**2,464,628**	974,115	2,027,872	7,506,606	10,939,490	12,228,446	14,959,850	9,455,655	1,769,727	3,778,146
Federal grants - with PRTC as grantee	**5,420,552**	1,269,732	9,997,070	40,136,130	15,437,312	14,648,460	18,259,459	399,283	550,890	-
Federal grants - NVTC and other	**-**	-	-	3,308,513	402,355	53,738	939,088	10,363,653	12,245,939	9,824,036
Pass-through to Fairfax County	**-**	-	-	-	-	(4,456,818)	-	-	-	-
In-kind and other local contributions	**2,637,809**	328,031	46,924	406,331	680,631	1,903,284	925,338	-	-	266,148
Interest income:										
Operating funds	**27,860**	18,573	16,813	14,675	23,893	129,620	399,553	850,490	367,292	214,888
Insurance trust	**-**	-	-	-	65,164	241,003	400,204	329,252	721,919	688,816
Other restricted funds	**196**	772	1,161	384	586	36,232	535,093	41,038	840,383	49,860
Insurance proceeds	**-**	-	-	-	-	-	262,676	-	-	-
(Gain) loss on disposal of assets	**1,500**	(769,042)	(358,382)	(271,606)	(393,419)	-	-	-	-	-
Total nonoperating revenues	**62,243,326**	51,777,668	57,568,098	96,135,133	71,212,556	68,326,404	73,378,727	55,253,086	47,233,023	36,912,678
Total revenues	**99,534,717**	86,750,155	92,593,873	128,703,325	101,479,661	94,361,124	95,200,061	75,145,205	67,128,976	56,486,213
Operating Expenses:										
Contract operations and maintenance	**23,151,332**	21,751,488	21,093,606	21,405,930	20,291,361	18,694,757	17,433,267	16,982,189	14,619,521	14,144,414
Other operations and maintenance	**14,891,502**	12,785,223	14,594,826	12,949,155	12,055,009	12,575,004	11,562,892	10,130,233	9,304,325	7,928,107
Property leases and access fees	**13,924,017**	13,504,023	13,123,367	11,756,531	9,482,367	8,686,385	8,279,505	8,636,947	8,986,974	8,769,866
Insurance	**3,991,969**	4,022,072	3,491,620	4,049,906	3,864,366	3,866,438	4,099,475	5,169,441	3,521,858	3,533,503
Marketing and sales	**2,012,321**	1,872,343	2,211,354	1,502,434	1,259,048	1,477,554	1,537,243	1,161,206	1,005,348	1,302,527
General and administrative	**7,793,040**	6,784,379	7,111,871	5,964,956	5,642,360	5,492,566	5,151,117	5,164,332	5,219,514	5,282,641
Depreciation and amortization	**14,706,458**	14,465,445	13,373,129	12,218,203	11,337,406	10,445,041	10,640,098	9,875,593	8,217,233	6,699,409
Total operating expenses	**80,470,639**	75,184,973	74,999,773	69,847,115	63,931,917	61,237,745	58,703,597	57,119,941	50,874,773	47,660,467
Nonoperating (Revenues) Expenses:										
Interest and amortization	**4,026,724**	4,683,094	6,524,348	5,566,829	5,682,935	6,014,243	4,525,279	2,748,084	4,953,443	4,257,178
(Gain) loss on disposal of assets	**-**	-	-	-	-	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928
Total nonoperating expenses, net	**4,026,724**	4,683,094	6,524,348	5,566,829	5,682,935	1,795,602	7,702,211	3,039,390	6,319,974	7,898,106
Extraordinary item	**3,660,786**	-	-	-	-	-	-	-	-	-
Total expenses	**88,158,149**	79,868,067	81,524,121	75,413,944	69,614,852	63,033,347	66,405,808	60,159,331	57,194,747	55,558,573
Change in net assets			$ 11,069,752	$ 53,289,381	$ 31,864,809	$ 31,327,777	$ 28,794,253	$ 14,985,874	$ 9,934,229	$ 927,640
Change in net position	**$ 11,376,568**	$ 6,882,088								

Note: Years after fiscal year 2010 reflect change in classification of gain *(loss) on disposal of assets.*
Interest costs in fiscal year 2012 restated to comply with GASB 65.

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

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

	June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net investment in capital assets	**$ 220,069,396**	$ 220,007,440	$ 220,396,390	$ 213,710,235	$ 165,407,433	$ 144,566,529	$ 114,677,949	$ 87,827,971	$ 68,818,859	$ 56,669,086
Restricted for liability insurance plan	**10,454,171**	10,294,874	10,156,492	10,052,968	9,511,797	8,229,082	7,470,123	6,524,971	10,204,517	12,439,017
Restricted for debt service and capital lease	**6,731,166**	6,563,328	6,408,466	6,259,239	5,980,313	5,850,112	7,287,789	7,213,804	7,008,351	6,873,135
Restricted grants or contributions	**-**	140,270	951,342	600,250	34,619	194,193	1,269,313	785,173	14,013	726,456
Unrestricted assets	**46,973,389**	35,845,639	28,056,773	24,277,019	20,676,168	10,905,605	7,712,570	7,251,572	8,571,877	7,975,694
Total net assets			$ 265,969,463	$ 254,899,711	$ 201,610,330	$ 169,745,521	$ 138,417,744	$ 109,603,491	$ 94,617,617	$ 84,683,388
Total net position	**$ 284,228,122**	$ 272,851,551								

Note: Method of reporting was revised for fiscal year 2011.
Fiscal year 2012 balance restated to comply with GASB 65.

Source: VRE's Audited Financial Statements.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue Bonds:										
$37,625,000 Commuter Rail Revenue Bond, Series 1993	**$ -**	$ -	$ -	$ -	$ 5,065,000	$ 9,875,000	$ 14,450,000	$ 18,800,000	$ 22,945,000	$ 26,895,000
$23,000,000 Commuter Rail Revenue Bond, Series 1997	**-**	-	-	-	-	-	14,635,000	15,690,000	16,690,000	17,645,000
$31,700,000 Commuter Rail Revenue Bond, Series 1998	**6,555,000**	12,775,000	18,685,000	24,295,000	24,425,000	24,550,000	24,670,000	24,785,000	24,895,000	25,000,000
Capital Leases:										
$271,804 Capitalized Lease Obligation	**-**	-	-	-	-	-	-	164,600	-	-
$2,717,409 Capitalized Lease Obligation	**-**	-	-	-	-	-	420,665	855,119	1,265,433	1,652,951
$25,100,000 Capitalized Lease Obligation	**16,535,611**	17,668,825	18,751,762	19,786,652	20,775,627	21,720,726	22,623,892	23,486,988	24,311,791	25,100,000
Notes Payable:										
$900,000 SunTrust Bank	**-**	-	320,000	380,000	440,000	500,000	560,000	605,000	660,000	720,000
$63,844,842 FRA Notes (#1-#16)	**59,698,580**	61,595,766	63,409,659	63,305,611	63,749,851	56,122,937	26,970,555	-	-	-
Outstanding as of June 30	**$ 82,789,191**	$ 92,039,591	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951
Debt per Capita:										
Outstanding as of June 30	**$ 82,789,191**	$ 92,039,591	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951
Total Participating Jurisdictional Population	**N/A**	N/A	2,238,365	2,189,706	2,146,227	2,116,826	2,079,204	2,045,670	2,026,082	2,000,311
Debt per Capita	**N/A**	N/A	$ 45.20	$ 49.22	$ 53.33	$ 53.27	$ 50.18	$ 41.25	$ 44.80	$ 48.50
Outstanding Debt as a Percentage of Personal Income:										
Outstanding as of June 30	**$ 82,789,191**	$ 92,039,591	$ 101,166,421	$ 107,767,263	$ 114,455,478	$ 112,768,663	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951
Total Personal Income	**N/A**	N/A	134,892,346,000	125,699,746,000	124,747,042,000	124,151,660,000	123,874,456,000	116,871,257,000	110,562,509,000	104,445,746,000
Total Outstanding Debt as a Percentage of Personal Income	**N/A**	N/A	0.07%	0.09%	0.09%	0.09%	0.08%	0.07%	0.08%	0.09%

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

(1) County of Fairfax fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 255
(2) County of Arlington fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table L, page 179
(3) County of Prince William fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 191
(4) County of Stafford fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table S-16, page 131
(5) City of Alexandria fiscal year 2012 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 139
(6) City of Fredericksburg fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 142
(7) County of Spotsylvania fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 135
(8) City of Alexandria fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Tables XI & XIV, pages 138
(9) City of Manassas fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 154
(10) City of Manassas Park fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 119

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Fairfax County	**$ 4,747,684**	$ 4,511,265	$ 4,876,961	$ 4,906,693	$ 4,995,535	$ 5,507,805	$ 4,700,508	$ 3,935,736	$ 3,159,643	$ 2,963,820
City of Fredericksburg	**427,728**	339,064	420,566	405,980	508,503	482,764	330,713	111,115	73,827	57,544
City of Manassas	**757,804**	642,662	817,993	871,611	883,443	938,897	655,077	428,436	276,306	270,924
City of Manassas Park	**574,709**	441,702	566,504	544,763	537,496	567,082	359,574	183,686	179,422	149,758
Prince William County	**5,748,203**	4,761,324	5,859,007	6,384,660	6,173,028	6,511,839	4,624,876	2,961,241	2,236,676	2,061,006
Stafford County	**2,529,281**	1,892,640	2,505,805	2,634,002	2,971,727	2,974,507	2,429,735	917,147	699,424	609,222
Spotsylvania County	**1,313,600**	3,510,352	577,020	-	-	-	-	-	-	-
City of Alexandria	**133,894**	133,894	129,944	130,974	124,737	118,797	113,140	107,752	102,621	97,734
Arlington County	**195,897**	195,897	190,117	191,624	182,499	173,809	165,532	157,649	150,142	142,992
Total contributions	**$ 16,428,800**	$ 16,428,800	$ 15,943,917	$ 16,070,307	$ 16,376,968	$ 17,275,500	$ 13,379,155	$ 8,802,762	$ 6,878,061	$ 6,353,000

Source: VRE's Department of Finance

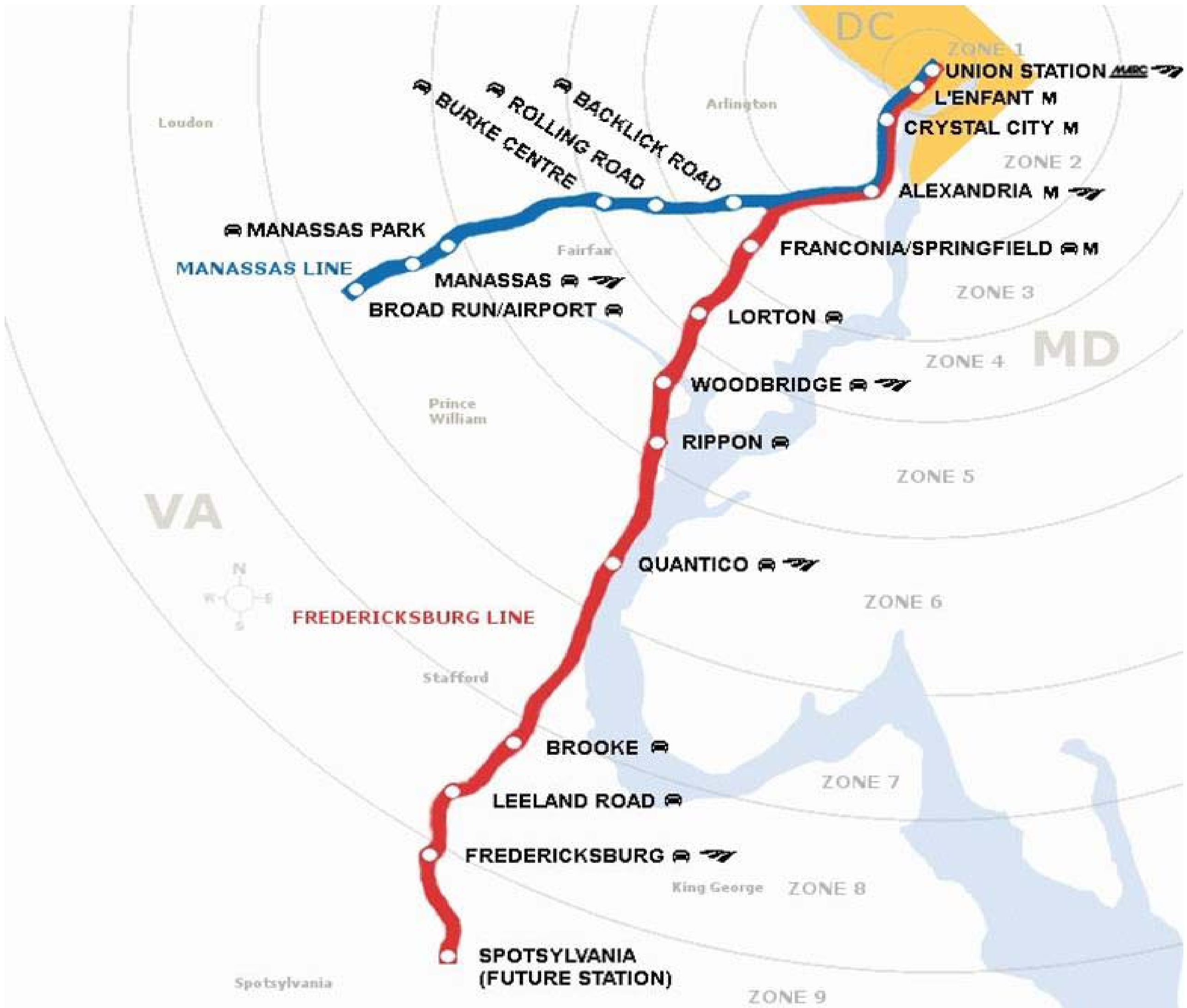
VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS
Last Ten Fiscal Years
(Unaudited)

	June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Rolling Stock (Owned or Leased)										
Locomotives	**20**	20	22	25	20	21	18	19	20	20
Railcars	**91**	91	91	101	95	91	89	90	90	90
Total rolling stock	**111**	111	113	126	115	112	107	109	110	110
Stations	**18**	18	18	18	18	18	18	18	18	18
Parking Spaces	**9,030**	9,030	8,824	8,824	8,691	8,505	7,227	7,284	7,273	7,273
Employees	**37**	37	37	37	37	37	37	36	36	34
Ridership and Fare Revenue Data (1):										
Total Ridership	**4,547,911**	4,643,898	4,771,987	4,517,366	4,033,230	3,857,646	3,628,563	3,453,561	3,637,043	3,763,740
Average Daily Ridership	**18,119**	18,878	19,088	18,377	16,673	15,754	14,662	13,982	14,667	15,238
Average Fare per Trip	**$ 8.16**	$ 7.48	$ 7.28	$ 7.17	$ 7.44	$ 6.66	$ 5.98	$ 5.70	$ 5.40	$ 5.17

(1) The methodology for calculating passenger trips was changed during fiscal year 2011 and fiscal year 2012 to more accurately reflect boardings and detrainings prior to the inner city stations. This increased total ridership and decreased average fare per trip. The methodology for calculating Average Daily Ridership (ADR) was changed in fiscal year 2012 to count days with limited train service ("S" schedule). This resulted in a lower ADR than would have been calculated under the prior method.

Source: VRE staff


DC
ZONE 1
UNION STATION
L'ENFANT M
CRYSTAL CITY M
ZONE 2
ALEXANDRIA M
FRANCONIA/SPRINGFIELD M
ZONE 3
LORTON
ZONE 4
MD
WOODBRIDGE
RIPPON
ZONE 5
QUANTICO
ZONE 6
BROOKE
ZONE 7
LEELAND ROAD
FREDERICKSBURG
King George
ZONE 8
SPOTSYLVANIA
(FUTURE STATION)
ZONE 9
Loudon
Arlington
BACKLICK ROAD
ROLLING ROAD
BURKE CENTRE
MANASSAS PARK
MANASSAS LINE
Fairfax
MANASSAS
BROAD RUN/AIRPORT
Prince William
VA
FREDERICKSBURG LINE
Stafford
Spotsylvania

VIRGINIA RAILWAY EXPRESS

PRINCIPAL EMPLOYERS OF PARTICIPATING JURISDICTIONS
Current Year and Nine Years Ago
(Unaudited)

	2013			2004		
Employers	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1) (2) (3) (4) (5)	1	61,905	N/A	1	55,288	N/A
Fairfax County Public Schools (1)	2	24,421	N/A	2	21,069	N/A
Fairfax County Government (1)	3	12,302	N/A	3	11,443	N/A
Arlington County Government (2)	4	10,934	N/A	6	9,723	N/A
Booz Allen Hamilton (1)	5	7,000-10,000	N/A	4	9,000-10,000	N/A
Inova Health System (1)	5	7,000-10,000	N/A	4	9,000-10,000	N/A
Science Applications International Corporation (1)	7	4,000-6,999	N/A	7	6,000-7,000	N/A
Federal Home Loan Mortgage (1)	7	4,000-6,999	N/A	9	3,000-4,000	N/A
Northrop Grumman (1)	7	4,000-6,999	N/A	7	6,000-7,000	N/A
Lockheed Martin Corporation (1)	7	4,000-6,999	N/A	-	-	-
Computer Science Corporation (1)	-	-	-	9	3,000-4,000	N/A
Navy Federal Credit Union (1)	-	-	-	9	3,000-4,000	N/A

Sources:

(1) through (5) extracted and combined from the following sources:

(1) County of Fairfax fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 256
(2) County of Arlington fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table L, page 180
(3) County of Prince William fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 17, page 192
(4) County of Stafford fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table S-16, page 133
(5) City of Alexandria fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 143

VIRGINIA RAILWAY EXPRESS

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS
Fiscal Years 2004 to 2013
(Unaudited)

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	Spotsylvania County (7)	City of Alexandria (8)	Arlington County (9)
2014 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2013									
Population	N/A	430,289	39,902	14,838	135,311	27,307	126,494	146,294	221,045
Personal Income (in thousands)	N/A	N/A	N/A	$419,100	$5,900,913	$1,116,665	N/A	N/A	$18,234,223
Per Capita Personal Income	N/A	N/A	N/A	$28,245	$43,610	$40,893	N/A	N/A	$82,491
Unemployment Rate	N/A	4.7%	5.8%	5.0%	5.1%	8.2%	5.3%	4.7%	4.0%
2012									
Population	1,118,602	419,006	39,060	15,332	134,352	26,024	125,684	144,301	216,004
Personal Income (in thousands)	$77,012,392	$22,620,321	N/A	$419,100	$5,744,220	$1,064,199	N/A	$10,758,922	$17,273,192
Per Capita Personal Income	$68,847	$46,123	N/A	$27,335	$42,755	$40,893	N/A	N/A	$79,967
Unemployment Rate	4.3%	4.9%	5.9%	4.7%	4.9%	8.8%	5.0%	4.6%	3.5%
2011									
Population	1,100,692	406,110	37,821	14,387	128,961	25,691	124,477	141,287	210,280
Personal Income (in thousands)	$71,145,429	$21,307,192	N/A	$455,635	$5,405,658	$1,050,582	N/A	$10,627,334	$15,707,916
Per Capita Personal Income	$64,637	$43,076	N/A	$31,670	$41,917	$40,893	$40,893	$82,491	$74,700
Unemployment Rate	4.2%	5.3%	6.9%	5.2%	5.2%	10.3%	5.6%	4.8%	3.9%
2010									
Population	1,081,726	389,001	35,648	12,042	128,961	24,286	122,397	139,966	212,200
Personal Income (in thousands)	$72,577,324	$19,899,449	N/A	$391,776	$5,265,160	$954,391	N/A	$10,441,443	$15,217,499
Per Capita Personal Income	$67,094	$43,346	N/A	$32,534	$40,828	$39,298	$39,298	$76,362	$71,713
Unemployment Rate	4.9%	5.7%	7.4%	5.8%	5.7%	9.6%	6.0%	4.8%	4.3%
2009									
Population	1,074,227	374,776	35,883	11,410	122,800	23,353	120,977	144,100	209,300
Personal Income (in thousands)	$74,380,758	$18,561,645	N/A	$382,695	$4,915,316	$892,131	N/A	$10,178,071	$14,841,044
Per Capita Personal Income	$69,241	$42,254	N/A	$33,540	$40,027	$38,202	$38,202	$70,846	$70,908
Unemployment Rate	4.8%	5.9%	6.4%	6.5%	5.4%	9.2%	5.7%	2.8%	4.7%
2008									
Population	1,050,315	368,016	36,666	11,533	121,736	22,899	120,015	140,024	208,000
Personal Income (in thousands)	$74,385,409	$18,145,470	$918,630	$394,715	$4,897,196	$889,030	N/A	$10,204,006	$14,040,000
Per Capita Personal Income	$70,822	$42,960	$25,054	$34,225	$40,228	$38,824	$38,824	$72,220	$67,500
Unemployment Rate	3.4%	3.4%	4.8%	3.2%	3.4%	5.7%	3.4%	2.9%	2.6%
2007									
Population	1,041,507	359,174	38,066	11,527	120,723	22,651	118,939	128,283	204,800
Personal income (in thousands)	$70,500,650	$17,200,916	$904,067	$390,604	$4,497,535	$865,154	N/A	$9,507,531	$13,004,800
Per capita personal income	$67,691	$41,382	$23,750	$33,886	$37,255	$38,195	$38,195	$70,632	$63,500
Unemployment rate	2.2%	2.6%	2.7%	2.4%	2.6%	4.1%	2.5%	2.2%	2.3%
2006									
Population	1,037,311	350,612	38,066	11,652	120,170	22,044	117,718	128,283	200,226
Personal income (in thousands)	$67,111,947	$16,088,936	$922,642	$380,385	$4,291,511	$799,337	N/A	$8,835,057	$12,132,694
Per capita personal income	$64,698	$39,502	$24,238	$32,645	$35,712	$36,261	$36,261	$65,141	$60,595
Unemployment rate	2.2%	2.6%	2.9%	2.3%	2.4%	4.0%	2.4%	2.6%	2.3%

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	Spotsylvania County (7)	City of Alexandria (8)	Arlington County (9)
2005									
Population	1,033,646	337,439	37,000	11,369	117,674	21,724	114,909	128,283	198,267
Personal income (in thousands)	$63,917,568	$15,012,664	$909,336	$361,406	$4,021,156	$746,914	N/A	$7,776,966	$11,699,736
Per capita personal income	$61,837	$37,577	$24,577	$31,789	$34,172	$34,382	$34,382	$61,147	$59,010
Unemployment rate	2.5%	3.0%	2.8%	2.1%	2.7%	4.8%	2.3%	3.1%	2.5%
2004									
Population	1,022,298	323,377	36,500	10,930	114,513	21,342	110,552	128,283	198,739
Personal income (in thousands)	$58,830,183	$13,723,915	$849,793	$343,776	$3,687,891	$688,514	N/A	$7,435,257	$11,497,250
Per capita personal income	$57,547	$35,556	$23,282	$31,453	$32,205	$32,261	$32,261	$58,365	$57,851
Unemployment rate	2.7%	3.1%	3.1%	2.0%	2.8%	5.1%	2.5%	3.2%	2.6%

Sources:

(1) Fairfax County fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 4.0, page 255
(2) Prince William County fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 191
(3) City of Manassas fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table XIII, page 154
(4) City of Manassas Park fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 119
(5) Stafford County fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table S-14; page 131
(6) City of Fredericksburg fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 142
(7) Spotsylvania County fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table S-13, page 135
(8) City of Alexandria fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table XIV, page 138
(9) Arlington County fiscal year 2013 Comprehensive Annual Financial Report, Statistical Section, Table K, page 179

N/A = Not Available

Compliance Section

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Honorable Operations Board Members and Commissioners
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Virginia Railway Express (VRE), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise VRE's basic financial statements, and have issued our report thereon dated October 21, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
October 21, 2014