VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

VRE

2008
2009

FOR THE YEARS ENDED JUNE 30TH, 2009 AND 2008

HEADQUARTERED IN ALEXANDRIA, VIRGINIA

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, 2008

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

VIRGINIA RAILWAY EXPRESS

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2009 AND 2008

Prepared by:

Department of Finance

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Introductory Section

Virginia Railway Express
A Transportation Partnership

November 8, 2009

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 Virginia Railway Express' (VRE) comprehensive annual financial report for fiscal year ended June 30, 2009. This report conforms to accounting principles generally accepted in the United States of America (GAAP) and provides full disclosure of VRE's financial position and operations for fiscal year 2009. The information provided in this report assists the VRE Operations Board, Commissions and other officials in making management decisions and provides all interested parties with comprehensive financial data in a format that will enable them to gain a true understanding of VRE's financial affairs.

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 PBGH, LLP, a firm of licensed certified public accountants, and have earned an unqualified opinion. The independent auditors' 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 auditors' 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

The Virginia Railway Express is a joint venture of the Northern Virginia Transportation Commission (NVTC) and the Potomac and Rappahannock Transportation Commission (PRTC). Both are political subdivisions of the Commonwealth of Virginia. 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 2009, VRE operated 30 trains and served an average daily ridership of 15,754.

VRE is managed by the Commissions. Certain functions have been delegated to the VRE Operations Board, consisting of representatives of all contributing and participating jurisdictions and one representative of the Commonwealth of Virginia's Department of Rail and Public Transportation.

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.

Economic Conditions

Major Initiatives

During fiscal year 2009, VRE focused on improving systems that would ensure the future health of the rail line.

Fifteen new bi-level Gallery railcars were delivered during the fiscal year and placed in service, the completion of the purchase of 50 railcars that was approved in July 2007, and ten additional Gallery railcars were ordered during fiscal year 2009. These railcars have allowed VRE to replace aging and leased equipment as well as increase capacity. During fiscal year 2009, VRE placed orders for the construction of nine locomotives and an order for an additional three locomotives was placed in July 2009. Depending on the availability of funding, VRE would like to replace all 20 locomotives in the fleet. The new locomotives are more fuel efficient and less costly to maintain and will improve service reliability.

Many of VRE's station parking lots were at or above capacity and to address this limitation two major parking garage projects were opened in early fiscal year 2009. A Fairfax County parking facility at Burke Centre opened in July 2008 and a parking deck in Manassas was opened in August 2008. For Fredericksburg line passengers, work is underway for parking expansion at both the Brooke and Leeland stations. Improvements at the Crossroads storage yard were completed during fiscal year 2009, including the construction of a service and inspection building and the extension of tracks for rolling stock storage. Similar improvements at the Broad Run storage yard were approximately 20% complete at year end and are expected to be finished by June 2010. Construction of a second platform and overhead pedestrian bridge is underway at the Woodbridge station and is expected to be finished in January 2010.

Long-Term Financial Planning

In order to help prioritize future needs and address potential future growth, a Long-Range Strategic Plan was completed in 2004. The plan identifies the projected ridership demand through 2025, and the capital and operating expenses necessary to meet the demand. It also examines potential network extensions, their impact on ridership, and the costs of such expansions. The Strategic Plan provides the technical underpinning for policy and planning decisions in the upcoming years. An update to the cost and timing of the major capital projects included in the plan will be prepared in fiscal year 2010. In addition, the annual budget includes both a multi-year capital program and a six-year forecast of revenue, expenses and funding sources.

Financial Environment

The current financial environment has resulted in a conundrum for VRE, as it has for many transit agencies. As the price of fuel soared and environmental concerns increased, commuters were drawn to transit alternatives. For VRE, much of this increased ridership was maintained even when fuel costs fell during the latter part of the fiscal year and VRE experienced its highest cumulative average daily ridership to date during fiscal year 2009. At the same time, the precipitous decrease in real estate values in Northern Virginia and throughout the Commonwealth and the general economic downturn have caused severe financial difficulty for the local and state governments that provide important subsidy funds for the VRE system. As a result, future VRE budgets will reflect a balance between meeting service needs, controlling subsidy levels and setting fares at a reasonable price.

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 will play an increasingly vital role in addressing the area's need to improve air quality and reduce congestion. It is estimated that VRE takes the equivalent of one full lane of traffic off of 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, 2008. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

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

Respectfully submitted,

Dale Zehner
Chief Executive Officer

Donna Boxer, CPA
Chief Financial Officer

DIRECTORY OF PRINCIPAL OFFICIALS AND KEY PERSONNEL

Operations Board

Officers

Chairman	Hon. Christopher Zimmerman, Arlington County
Vice-Chairman	Hon. Paul Milde, Stafford County
Treasurer	Hon. Wally Covington, Prince William County
Secretary	Hon. Sharon Bulova, Fairfax County

Members

Hon. Maureen Caddigan, Prince William County
Hon. John Jenkins, Prince William County
Hon. Matthew Kelly, City of Fredericksburg
Hon. Patrick Herrity, Fairfax County
Hon. Suhas Naddoni, City of Manassas Park
Kevin Page, VDRPT
Hon. George Schwartz, Stafford County
Hon. Paul Smedberg, City of Alexandria
Hon. Jonathan Way, City of Manassas

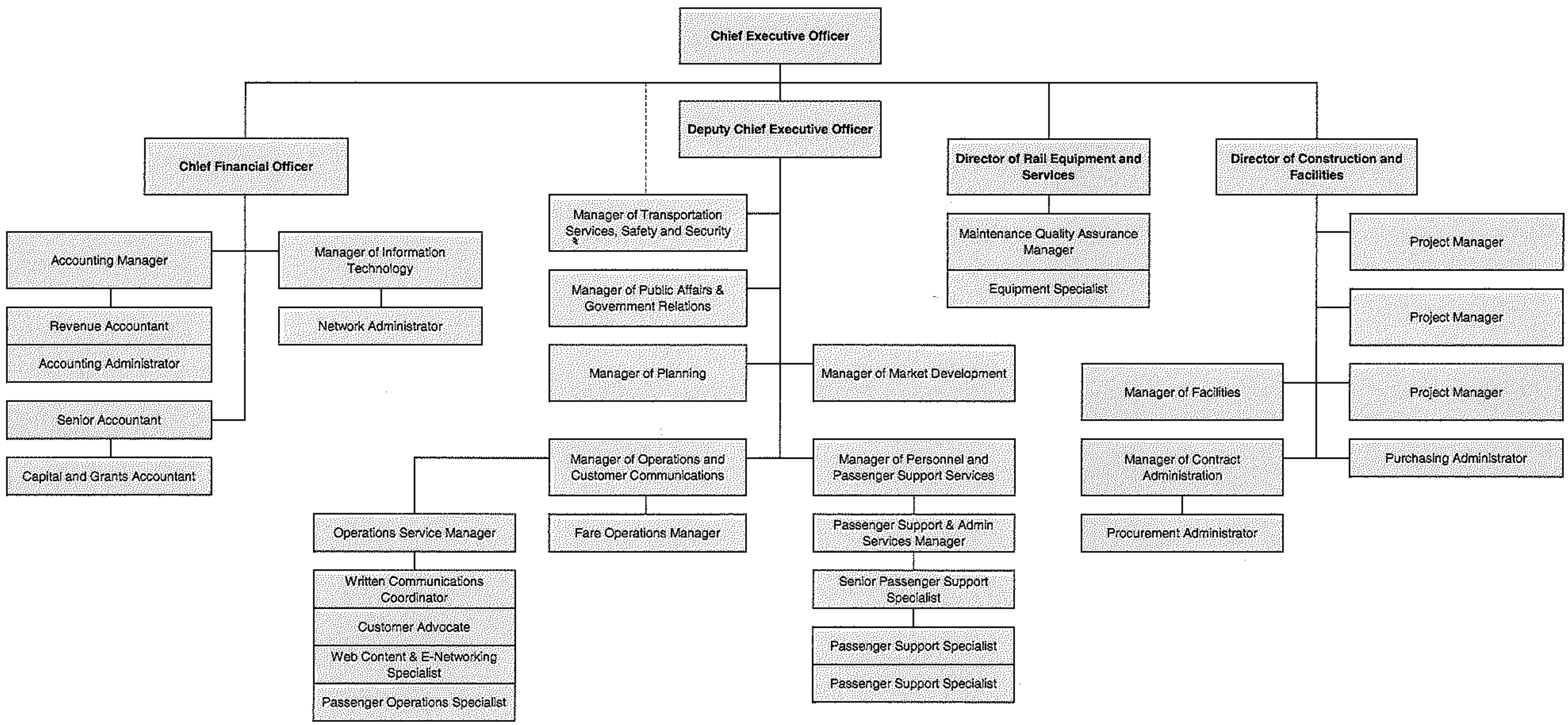
Alternates

Hon. Marc Aveni, City of Manassas
Chip Badger, VDRPT
Hon. Harry Crisp, Stafford County
Hon. Mark Dudenhefer, Stafford County
Hon. Brad Ellis, City of Fredericksburg
Hon. Jay Fisette, Arlington County
Hon. Frank Jones, City of Manassas Park
Hon. Timothy Lovain, City of Alexandria
Hon. Michael May, Prince William County
Hon. Jeff McKay, Fairfax County
Hon. Martin Nohe, Prince William County
Hon. Brian Polk, Manassas Park
Hon. John Stirrup, Prince William County

Management

Chief Executive Officer	Dale Zehner
Deputy Chief Executive Officer	Jennifer Straub
Chief Financial Officer	Donna Boxer, CPA
Director, Construction and Facilities	Sirel Mouchantaf, P.E.
Director, Rail Equipment and Services	Richard Dalton

Virginia Railway Express
Organizational Chart
June 2009



Footnote: Manager of Transportation Services, Safety and Security reports to the CEO in matters related to safety and security.

Financial Section

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An Independently Owned Member

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Virginia Railway Express, 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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Virginia Railway Express' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Railway Express' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Railway Express as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2009 on our consideration of the Virginia Railway Express' internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 8 through 16 and Schedule of Funding Progress on page 38 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VRE's basic financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PBGH, LLP

Harrisonburg, Virginia
November 4, 2009

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, 2009. We encourage readers to consider the information presented here in conjunction with additional information that 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 19.3 percent compared to the prior year, from $21,821,334 to $26,034,720. Ridership increased by 6.3 percent from 3,628,563 annual trips to 3,857,646.
- Operating expenses increased by 5.7 percent from $48,063,499 to $50,792,704.
- Non-operating revenue and capital grants decreased by 6.9 percent from $73,398,727 to $68,326,404. This decrease reflects the large federal grant drawn primarily in fiscal year 2008 for the purchase of rolling stock.
- The operating loss before depreciation was $24,757,984, a decrease from the previous year of 5.7 percent. Local, federal and state support is accounted for as non-operating income and is used to offset these losses.
- VRE's total net assets increased by $31,327,777 from $138,417,744 to $169,745,521. At the end of the fiscal year, unrestricted net assets were $10,905,605.
- During the fiscal year, capital assets, net of accumulated depreciation, increased by 14.0 percent, primarily as the result of the purchase of 15 new Gallery railcars and the initiation of construction of 10 additional Gallery railcars and 12 new locomotives, net of the sale of 13 Kawasaki railcars.

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 in more detail some of the information in the basic statements.

Basic Financial Statements. VRE's statements are prepared in conformity with accounting principles generally accepting 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 Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. Comparative data for the prior fiscal year is provided for all three statements.

The Statements of Net Assets report VRE's net assets, the difference between assets and liabilities. Net assets are 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 Assets 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 21-37 of this report.

Financial Analysis

Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of financial position, although other indicators should be considered as well. A condensed summary of VRE's net assets at June 30, 2009, 2008, and 2007 is shown below:

Condensed Statements of Net Assets

	2009	2008	2007
ASSETS:			
Current and other assets	$ 43,704,514	$ 39,350,039	$ 49,327,753
Capital assets, net	257,970,013	226,293,095	169,011,951
Total assets	301,674,527	265,643,134	218,339,704
LIABILITIES:			
Current portion of long-term debt	7,209,050	7,721,012	6,945,970
Other current liabilities	19,665,846	23,576,220	25,222,035
Non-current liabilities	105,054,110	95,928,158	76,568,208
Total liabilities	131,929,006	127,225,390	108,736,213
NET ASSETS:			
Invested in capital assets, net of related debt	144,566,529	114,677,949	87,827,971
Restricted	14,273,387	16,027,225	14,523,948
Unrestricted	10,905,605	7,712,570	7,251,572
Total net assets	$ 169,745,521	$ 138,417,744	$ 109,603,491

Current Year

Net assets increased by approximately $31.3 million, or 22.6 percent during the current fiscal year, due mainly to capital contributions that were used to fund rolling stock and facilities improvements.

The largest portion of VRE's net assets, $144.6 million or 85.2 percent, represents its investment in capital assets (e.g., land, buildings, improvements, rolling stock and other equipment), 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. VRE's investment in its capital assets is reported net of accumulated depreciation and net of related debt. The resources required to repay this debt must be provided annually from operations and federal, 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 assets, $14.3 million or 8.4 percent represents resources that are restricted for the liability insurance plan, debt service, and restricted grant funds less related liabilities.

Capital assets, net of accumulated depreciation, increased approximately $31.7 million or 14 percent as the result of rolling stock and facilities additions.

Current liabilities decreased approximately $4.4 million or 14.1 percent. Accrued expenses in the prior year reflected five Gallery railcars placed in service at year end which were funded with a note payable in the current year.

Noncurrent liabilities increased approximately $9.1 million or 9.5 percent because of new debt incurred for the purchase of the remaining 15 of a 50 Gallery railcar purchase and the initiation of construction for ten additional Gallery railcars, less scheduled bond repayments during the year and the defeasance of the Series 1993 bonds.

Restricted net assets decreased approximately $1.8 million or 10.9 percent.

Prior Year

Net assets increased approximately $28.8 million, or 26.3 percent during the prior fiscal year, due mainly to capital contributions that were used to fund rolling stock and facilities improvements.

The largest portion of VRE's net assets, $114.7 million or 82.8 percent, represented its investment in capital assets (e.g., land, buildings, improvements, rolling stock and other equipment), less the related indebtedness outstanding used to acquire those capital assets.

A portion of VRE's net assets, $16 million or 11.6 percent represented resources that were restricted for the liability insurance plan and debt service, or were restricted grant funds less related liabilities.

Capital assets, net of depreciation, increased approximately $57.3 million or 33.9 percent as the result of rolling stock additions.

Other current liabilities decreased approximately $ .87 million or 2.7 percent. The use of deferred grant revenue from the Commonwealth of Virginia for rolling stock additions was netted against an increase to accrued expenses to reflect five Gallery railcars placed in service at year end.

Noncurrent liabilities increased approximately $19.4 million or 25.3 percent because of new debt incurred for the purchase of 35 Gallery railcars, less scheduled bond repayments during the year.

Restricted net assets increased approximately $1.5 million or 10.3 percent.

Statements of Revenues, Expenses and Changes in Net Assets

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

	2009	2008	2007
Operating revenues:			
Passenger revenue	$ 25,909,794	$ 21,688,092	$ 19,685,561
Equipment rentals and other	124,926	133,242	206,558
Total operating revenues	26,034,720	21,821,334	19,892,119
Non-operating revenues and capital grants:			
Subsidies and grants:			
Commonwealth of Virginia	25,711,262	25,755,293	21,725,539
Federal	23,029,503	31,741,415	23,504,005
Jurisdictional contributions	17,275,500	13,379,155	8,802,762
In-kind and local contributions	1,903,284	925,338	-
Insurance proceeds	-	262,676	-
Interest income	406,855	1,334,850	1,220,780
Total non-operating revenues and capital grants	68,326,404	73,398,727	55,253,086
Total revenues	94,361,124	95,220,061	75,145,205
Operating expenses:			
Contract operations and maintenance	18,694,757	17,433,267	16,982,189
Other operations and maintenance	12,575,004	11,562,892	10,130,233
Property leases and access fees	8,686,385	8,279,505	8,636,947
Insurance	3,866,438	4,099,475	5,169,441
Marketing and sales	1,477,554	1,537,243	1,161,206
General and administrative	5,492,566	5,151,117	5,164,332
Total operating expenses	50,792,704	48,063,499	47,244,348
Other expenses:			
Depreciation	10,445,041	10,640,098	9,875,593
Interest, financing costs and other	6,014,243	4,525,279	2,748,084
Total other expenses	16,459,284	15,165,377	12,623,677
Total expenses	67,251,988	63,228,876	59,868,025
Revenues over expenses before special items	27,109,136	31,991,185	15,277,180
Special item – gain (loss) on disposal of assets	4,218,641	(3,176,932)	(291,306)
Change in net assets	31,327,777	28,814,253	14,985,874
Net assets - beginning of year	138,417,744	109,603,491	94,617,617
Net assets - end of year	$ 169,745,521	$ 138,417,744	$ 109,603,491

Revenues

Current Year

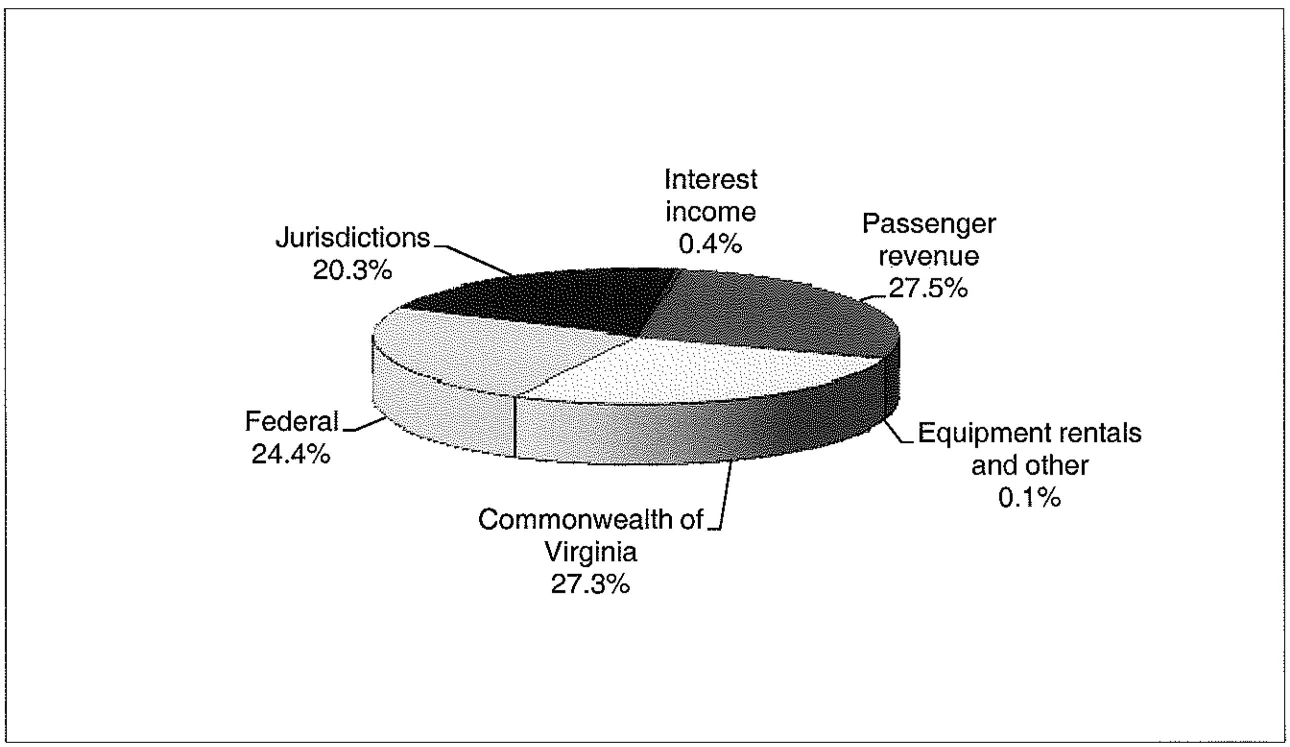
Total revenues for the current fiscal year decreased approximately $.86 million or .9 percent. Operating revenues totaled $26 million, an increase of 19.3 percent from the prior year.

Passenger revenue increased approximately $4.2 million or 19.5 percent, the combined result of a 10 percent fare increase and an increase in ridership. Fares were increased 3 percent at the beginning of the year and an additional 7 percent midyear.

	June 30,		
	2009	2008	2007
Ridership	3,857,646	3,628,563	3,453,561
% Increase (Decrease)	6.3%	5.1%	(5.0%)

Subsidies and capital grants from the state and federal governments decreased approximately $8.8 million or 15.2 percent; this decrease reflects the large federal grant drawn primarily in fiscal year 2008 for the purchase of railcars. Jurisdictional subsidies increased approximately $3.9 million or 29 percent. In addition, VRE received $1.9 million of in-kind and local contributions.

The following chart shows the major sources of revenues for the year ended June 30, 2009:



Prior Year

Total revenues for the prior fiscal year increased approximately $20.1 million or 26.7 percent. Operating revenues totaled $21.8 million, an increase of 9.7 percent from fiscal year 2007.

Passenger revenue increased approximately $2.0 million or 10.2 percent, the combined result of a 6 percent fare increase and a 5.1% increase in ridership.

Subsidies and capital grants from the state and federal governments increased approximately $12.3 million or 27.1 percent; the biggest increase was in capital grants for the purchase of additional railcars. Jurisdictional subsidies increased by $4.6 million or 52 percent. In addition, VRE received $.9 million for the local share of a parking deck.

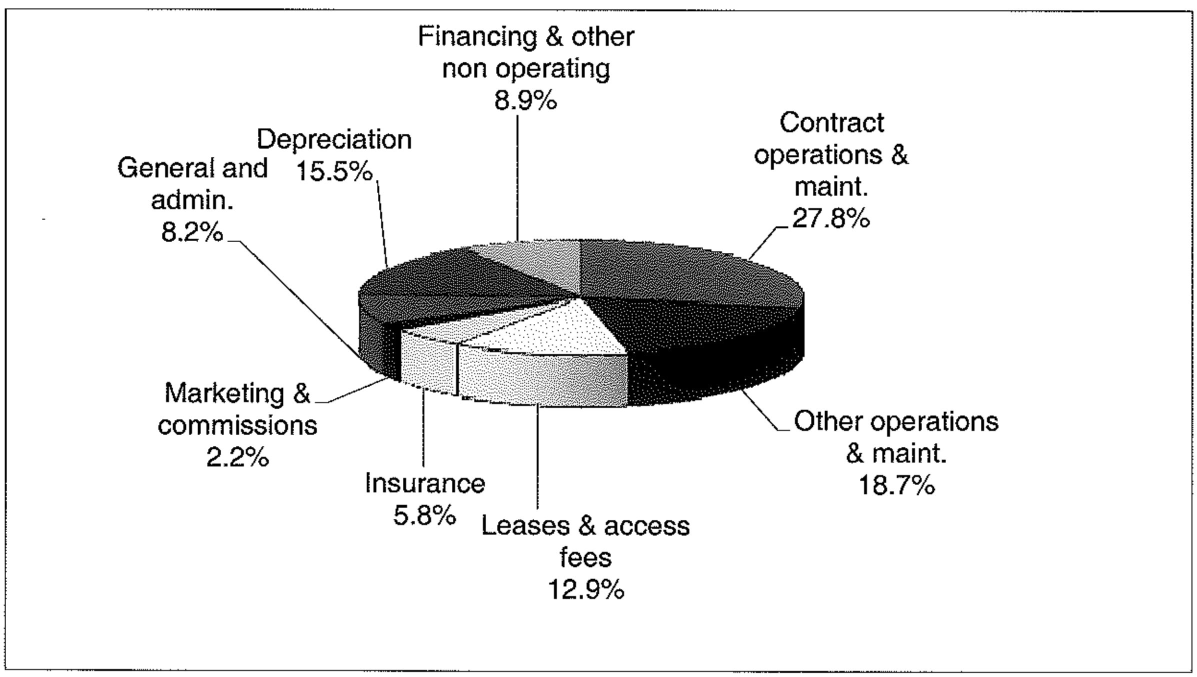
Expenses

Current Year

Total operating and other expenses including depreciation, increased approximately $4 million or 6.4 percent. Operating expenses increased by $2.7 million or 5.7 percent. Total operating expenses were approximately $50.8 million compared to approximately $48.1 million for the prior fiscal year.

Diesel fuel costs exceeded the amount for the prior year by approximately $1 million or 21.8 percent. Train crew labor costs increased approximately $1.2 million or 27.8 percent as the result of an Amtrak wage settlement and the transfer of certain costs from insurance to employee benefits. Liability insurance costs were lower than the previous year approximately $1 million, primarily as the result of a one-time credit and insurance claims costs were higher by approximately $.66 million. Track access and mid-day storage fees increased approximately $.66 million or 8.4 percent as the result of contractual commitments. The gain on sale of assets of approximately $4.2 million was the result of the sale of 13 Kawasaki railcars.

The following chart shows the major expense categories for the year ended June 30, 2009:



Prior Year

Total operating and other expenses including depreciation, increased approximately $3.4 million or 5.6 percent. Operating expenses increased approximately $.82 million or 1.7 percent. Total operating expenses were $48.1 million compared to $47.2 million for fiscal year 2007.

The major cost increase was for diesel fuel, which exceeded the amount for the prior year by $1.5 million or 48.3 percent. Insurance costs decreased approximately $1.1 million or 20.7 percent because of a large multi-year claim that was paid in fiscal year 2007. Equipment lease costs decreased approximately $.64 million or 61.2 percent as the result of the purchase of leased locomotives and the replacement of leased railcars with new Gallery cars.

The loss on sale of assets of $3,176,932 was the result of the sale of 29 older railcars and related inventory.

Capital Assets and Debt Administration

Capital Assets

VRE's investment in capital assets as of June 30, 2009 amounts to $258 million (net of accumulated depreciation). This investment in capital assets includes rolling stock, stations and platforms, track and signal improvements, office facilities and equipment, and equity in local property. Acquisitions are funded using a variety of financing techniques, including loans and grants from federal, Commonwealth of Virginia and local sources.

	2009	2008	2007
Rolling stock	$ 153,611,395	$ 148,011,293	$ 93,884,274
Vehicles	45,550	45,550	45,550
Facilities	76,785,604	59,713,775	58,716,180
Track and signal improvements	52,151,000	52,269,212	52,269,212
Equipment	7,850,081	7,796,280	6,329,601
Construction in progress	33,842,651	19,461,401	12,705,134
Equity in local properties	5,244,798	5,244,798	5,244,798
Office furniture and equipment	3,314,942	3,256,370	2,935,663
	332,846,021	295,798,679	232,130,412
Less accumulated depreciation	(74,876,008)	(69,505,584)	(63,118,461)
Total capital assets, net	$ 257,970,013	$ 226,293,095	$ 169,011,951

Current Year

During fiscal year 2009, net investment in capital assets increased approximately $31.7 million or 14 percent. Completed projects totaling approximately $43.1 million were closed from construction in progress to their respective capital accounts and an additional $2.24 million was charged directly to the capital accounts.

The major completed projects were: manufacture and purchase of 15 Gallery railcars ($27.3 million); overhaul of locomotives ($873,000); Crossroads Yard Expansion ($7.1 million); and construction of the Manassas Parking Garage ($10 million). In addition, 13 Kawasaki railcars and associated equipment with a net book value of approximately $17.7 million were sold during the year, resulting in a gain on sale in the amount of $4.2 million. The major additions to construction in progress during the fiscal year were for acquisition of additional railcars and locomotives, and improvements to the stations and yards.

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

Prior Year

During fiscal year 2008, net investment in capital assets increased approximately $57.3 million or 33.9 percent. Completed projects totaling $57.5 million were closed from construction in progress to their respective capital accounts and an additional $8.6 million was charged directly to the capital accounts.

The major completed projects were: manufacture and purchase of 35 Gallery railcars ($62.1 million); overhaul of locomotives ($863,083); L'Enfant storage track ($551,644); panel windscreens ($92,940); security lighting ($323,353); Variable Message Sign system ($1.4 million); work management software ($108,180); and Quantico Hot site ($129,592). In addition, 29 older railcars with a net book value of $4,819,475 were sold during the year, resulting in a loss on sale in the amount of $3,013,963; the bonus purchase option on a leased locomotive was exercised; and six leased railcars were returned to Sound Transit and the improvements recorded for those railcars were removed from VRE's accounts.

The major additions to construction in progress during the fiscal year were for acquisition of additional railcars, construction of parking facilities, and improvements to the stations and yards.

Debt Administration

At June 30, 2009, VRE had total debt outstanding of $112,268,663. The revenue bond debt for VRE is issued under the name of the Northern Virginia Transportation Commission (NVTC). VRE revenues back the bonds and VRE is responsible for making debt service payments. A financial guaranty bond guarantees payment of each bond series. In August 2008, $14,300,000 of the Series 1997, Commuter Rail Revenue bonds were defeased and the outstanding debt was prepaid. Refunding bonds were not issued.

The capital leases for fare collection equipment and rolling stock are secured by the related equipment and the note payable for VRE's office condominium is secured by the real estate. The promissory notes with the Federal Railroad Administration for the purchase of 60 Gallery railcars are secured by the revenues of VRE and the rolling stock.

	2009	2008	2007
Revenue bonds	$ 34,425,000	$ 53,755,000	$ 59,275,000
Capital leases	21,720,726	23,044,557	24,506,707
Notes payable	56,622,937	27,530,555	605,000
Total	$ 112,768,663	$ 104,330,112	$ 84,386,707

VRE has access to a line of credit of up to $1 million with SunTrust Bank; the line was not utilized during 2009. For further information, please refer to Note 7 in 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.

A general fare increase of 6 percent was implemented at the beginning of fiscal year 2010, the third fare increase in thirteen months. The local subsidy for fiscal year 2010 was reduced by $898,532 to a total of $16,376,968, a reflection of the severe decline in local jurisdiction revenue. The level of state funding for transportation continues to be extremely volatile.

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.

Basic Financial Statements

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

ASSETS		2009		2008
Current Assets:				
Cash and cash equivalents	$	**5,901,750**	$	4,843,010
Accounts receivable:				
Federal grants		**8,790,894**		6,855,962
Commonwealth of Virginia grants		**5,051,200**		2,482,423
Trade receivables, net of allowance for doubtful accounts		**4,126,931**		2,270,933
Other receivables		**49,020**		497,905
Inventory		**3,464,574**		3,668,032
Prepaid expenses and other		**548,371**		451,159
Restricted cash, cash equivalents and investments		**14,326,630**		17,072,495
Total current assets		**42,259,370**		38,141,919
Noncurrent Assets:				
Deferred bond and lease costs, net		**1,445,144**		1,208,120
Capital assets:				
Rolling stock		**153,611,395**		148,011,293
Vehicles		**45,550**		45,550
Facilities		**76,785,604**		59,713,775
Track and signal improvements		**52,151,000**		52,269,212
Equipment		**7,850,081**		7,796,280
Construction in progress		**33,842,651**		19,461,401
Equity in local properties		**5,244,798**		5,244,798
Office furniture and equipment		**3,314,942**		3,256,370
		332,846,021		295,798,679
Less accumulated depreciation		**(74,876,008)**		(69,505,584)
Total capital assets, net		**257,970,013**		226,293,095
Total noncurrent assets		**259,415,157**		227,501,215
Total assets	**$**	**301,674,527**	$	265,643,134

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS		**2009**		2008
Current Liabilities:				
Accounts payable	**$**	**6,459,391**	$	5,446,859
Accounts payable – rolling stock		**1,397,863**		8,164,645
Payable to Commissions		**1,131,576**		1,034,088
Compensated absences		**3,930**		15,802
Accrued expenses		**7,152,734**		4,655,339
Accrued interest		**1,192,344**		1,670,319
Unearned revenue		**938,095**		1,679,514
Contract retainage		**1,389,913**		909,654
Notes payable		**1,328,952**		602,178
Current portion of capital lease obligations		**945,098**		1,323,834
Current portion of long-term debt		**4,935,000**		5,795,000
Total current liabilities		**26,874,896**		31,297,232
Noncurrent Liabilities:				
Capital lease obligations		**20,775,628**		21,720,723
Notes payable		**55,293,985**		26,928,377
Bonds payable, net		**28,726,958**		47,080,963
Compensated absences		**257,539**		198,095
Total noncurrent liabilities		**105,054,110**		95,928,158
Total liabilities		**131,929,006**		127,225,390
Net Assets:				
Invested in capital assets, net of related debt		**144,566,529**		114,677,949
Restricted for liability insurance plan		**8,229,082**		7,470,123
Restricted for debt service and capital lease		**5,850,112**		7,287,789
Restricted grants or contributions		**194,193**		1,269,313
Unrestricted assets		**10,905,605**		7,712,570
Total net assets		**169,745,521**		138,417,744
Total liabilities and net assets	**$**	**301,674,527**	$	265,643,134

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues:		
Passenger revenue	$ 25,909,794	$ 21,688,092
Equipment rentals and other	124,926	133,242
Total operating revenues	26,034,720	21,821,334
Operating Expenses:		
Contract operations and maintenance	18,694,757	17,433,267
Other operations and maintenance	12,575,004	11,562,892
Property leases and access fees	8,686,385	8,279,505
Insurance	3,866,438	4,099,475
Marketing and sales	1,477,554	1,537,243
General and administrative	5,492,566	5,151,117
Total operating expenses	50,792,704	48,063,499
Operating loss before depreciation	(24,757,984)	(26,242,165)
Depreciation	(10,445,041)	(10,640,098)
Operating loss	(35,203,025)	(36,882,263)
Nonoperating Revenues (Expenses):		
Subsidies:		
Commonwealth of Virginia grants	13,482,816	10,795,443
Federal grants	12,784,123	12,522,868
Jurisdictional contributions	17,275,500	13,379,155
Interest income:		
Operating funds	129,620	399,553
Insurance trust	241,003	400,204
Other restricted funds	36,232	535,093
Insurance proceeds	-	262,676
Interest, amortization and other nonoperating expenses, net	(6,014,243)	(4,525,279)
Total nonoperating revenues, net	37,935,051	33,769,713
Capital grants and assistance:		
Commonwealth of Virginia grants	12,228,446	14,959,850
Federal grants	14,702,198	19,218,547
Less: Pass-through to Fairfax County	(4,456,818)	-
Other local contributions	1,903,284	925,338
Total capital grants and assistance, net	24,377,110	35,103,735
Gain/(Loss) on disposal of assets	4,218,641	(3,176,932)
Change in net assets	31,327,777	28,814,253
Net Assets, beginning	138,417,744	109,603,491
Net Assets, ending	$ 169,745,521	$ 138,417,744

See Notes to Financial Statements.

VIRGINIA RAILWAY EXPRESS

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Receipts from customers	$ 24,447,258	$ 21,944,321
Payments to suppliers	(46,040,729)	(45,004,618)
Payments to employees	(3,842,570)	(3,308,598)
Net cash used in operating activities	(25,436,041)	(26,368,895)
Cash Flows From Noncapital Financing Activities:		
Governmental subsidies	42,947,801	35,932,131
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(33,571,366)	(36,753,440)
Capital grants and assistance	23,818,720	22,529,398
Pass through to Fairfax County	(4,456,818)	-
Proceeds from sale of capital assets	22,027,504	1,714,512
Principal paid on capital lease obligations	(1,323,831)	(1,462,510)
Principal paid on note	(975,427)	(45,000)
Principal paid on bonds	(19,330,000)	(5,520,000)
Interest paid on capital lease obligation	(1,040,338)	(1,099,364)
Interest paid on bonds and note	(4,754,084)	(3,349,465)
Net cash used in capital and related financing activities	(19,605,640)	(23,985,869)
Cash Flows From Investing Activities:		
Interest received on investments	406,755	1,342,901
Decrease in cash and cash equivalents	(1,687,125)	(13,079,732)
Cash and Cash Equivalents, beginning	21,915,505	34,995,237
Cash and Cash Equivalents, ending	$ 20,228,380	$ 21,915,505
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	$ (35,203,025)	$ (36,882,263)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,445,041	10,640,098
Loss on disposal of inventory	296,811	162,969
Proceeds from sale of inventory	-	122,500
(Increase) decrease in:		
Accounts receivable	(1,855,998)	105,349
Inventory	(93,353)	(1,977,462)
Prepaid expenses	(97,212)	87,760
Increase (decrease) in:		
Accounts payable and accrued expenses	803,159	1,354,516
Deferred ticket sales	268,536	17,638
Net cash used in operating activities	$ (25,436,041)	$ (26,368,895)
Schedule of Noncash Capital Activities		
Capital assets acquired through accounts payable	$ 5,534,131	$ 10,094,963
Capital assets acquired through notes payable	30,067,809	26,970,555
Capital assets acquired through accrued liabilities	1,758,811	1,112,933
Capital assets acquired through in-kind contributions	517,664	-
	$ 37,878,415	$ 38,178,451

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Virginia Railway Express (VRE) is 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 originating in Fredericksburg and Manassas, Virginia and 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 a Purchase of Services Agreement between Amtrak and the Commissions.

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, various lease financings, Federal and Commonwealth of Virginia grants, and jurisdictional contributions based on a population/ridership formula that are 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, and Stafford; and the cities of Manassas, Manassas Park and Fredericksburg, Virginia. Contributing jurisdictions include Arlington County and the City of Alexandria, Virginia.

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 is being 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.

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. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* VRE has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Note 1. Summary of Significant Accounting Policies (Continued)

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 and Commonwealth of Virginia grants, designated for payment of specific expenses, are recognized at the time that 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 Assets when expended. VRE records monetary and in-kind contributions as it assesses matching obligations to the jurisdictions or other construction partners. 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 $14,326,630 and $17,072,495 at June 30, 2009 and 2008, respectively, are comprised of funds related to bond compliance requirements, the balance in the Liability Insurance Plan, grant proceeds received in advance from the Commonwealth of Virginia, remaining proceeds from the sale of the Kawasaki rail cars 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 $257,343 at June 30, 2009 and $218,103 at June 30, 2008.

Inventory: VRE has purchased an inventory of spare parts for rolling stock that is maintained and managed by Amtrak pursuant to its maintenance responsibilities under the Purchase of Services Agreement with the Commissions. In addition, VRE has established an inventory of parts for rolling stock at its own warehouse located at Broad Run. Inventory is stated at cost, which approximates market, and is valued using the first-in-first-out method.

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. Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements and replacements are expensed.

Note 1. Summary of Significant Accounting Policies (Continued)

Costs of improvements to track 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 investments in jurisdictional facilities ("equity in local properties") recognize the right of access for commuter rail patrons granted to the Commissions.

VRE capitalizes assets that have an initial cost of $5,000 or more per unit and a useable life of two or more years.

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

Rolling stock	8-40 years
Vehicles	5 years
Facilities	30-40 years
Track and signal improvements	30 years
Equipment	5 years
Equity in local properties	35 years
Office furniture and equipment	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, 2009.

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.

Long-term obligations: Bond premiums, discounts, and deferred losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

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

Subsequent events: Subsequent events have been evaluated through November 4, 2009, which was the date the financial statements were available to be issued.

Note 2. Cash, Cash Equivalents and Investments

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.

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.

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.

	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.

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.

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, 2009, the book balance of VRE's deposits with banks was $349,284; these funds are swept into a U.S. Government Securities money market fund at the end of each business day.

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

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

	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, 2009, VRE had investments of $5,799,366 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, 2009, VRE had $8,229,082 invested in the Insurance Trust.

Accumulated bond interest and principal payments in the amount of $5,850,112 at June 30, 2009 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 SunTrust Bank and U.S. Bank have been assigned a "AAAm" rating by Standard & Poor's.

As of June 30, 2009, the carrying values and maturity of VRE's investments were as follows:

Investment Type	Fair Value	Maturities Less than 1 Year
LGIP	$ 5,799,366	$ 5,799,366
Insurance trust fund – pooled funds	8,229,082	8,229,082
Money market funds – U. S. Treasuries	5,850,112	5,850,112
Total investments	$ 19,878,560	$ 19,878,560

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 19,461,401	$ 57,521,120	$ (43,139,870)	$ 33,842,651
Capital assets being depreciated:				
Rolling stock	148,011,293	1,306,705	4,293,397	153,611,395
Vehicles	45,550	-	-	45,550
Facilities	59,713,775	880,000	16,191,829	76,785,604
Track and signal improvements	52,269,212	-	(118,212)	52,151,000
Equipment	7,796,280	53,801	-	7,850,081
Equity in local properties	5,244,798	-	-	5,244,798
Office furniture and equipment	3,256,370	-	58,572	3,314,942
Total capital assets being depreciated	276,337,278	2,240,506	20,425,586	299,003,370
Less accumulated depreciation for:				
Rolling stock	36,705,363	5,758,371	(5,074,617)	37,389,117
Vehicles	36,461	6,822	-	43,283
Facilities	14,676,743	1,904,254	-	16,580,997
Track and signal improvements	8,984,195	1,734,292	-	10,718,487
Equipment	5,532,039	619,682	-	6,151,721
Equity in local properties	2,197,796	149,852	-	2,347,648
Office furniture and equipment	1,372,987	271,768	-	1,644,755
Total accumulated depreciation	69,505,584	10,445,041	(5,074,617)	74,876,008
Total capital assets being depreciated, net	206,831,694	(8,204,535)	25,500,203	224,127,362
Totals	$ 226,293,095	$ 49,316,585	$ (17,639,667)	$ 257,970,013

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	(Deletions) Reclassifications	Ending Balance
Capital assets not being depreciated:				
Construction in progress	$ 12,705,134	$ 64,255,726	$ (57,499,459)	$ 19,461,401
Capital assets being depreciated:				
Rolling stock	93,884,274	8,413,117	45,713,902	148,011,293
Vehicles	45,550	-	-	45,550
Facilities	58,716,180	29,657	967,938	59,713,775
Track and signal improvements	52,269,212	-	-	52,269,212
Equipment	6,329,601	43,913	1,422,766	7,796,280
Equity in local properties	5,244,798	-	-	5,244,798
Office furniture and equipment	2,935,663	42,129	278,578	3,256,370
Total capital assets being depreciated	219,425,278	8,528,816	48,383,184	276,337,278
Less accumulated depreciation for:				
Rolling stock	34,898,175	6,060,163	(4,252,975)	36,705,363
Vehicles	27,351	9,110	-	36,461
Facilities	13,021,991	1,654,752	-	14,676,743
Track and signal improvements	7,241,888	1,742,307	-	8,984,195
Equipment	4,765,797	766,242	-	5,532,039
Equity in local properties	2,047,945	149,851	-	2,197,796
Office furniture and equipment	1,115,314	257,673	-	1,372,987
Total accumulated depreciation	63,118,461	10,640,098	(4,252,975)	69,505,584
Total capital assets being depreciated, net	156,306,817	(2,111,282)	52,636,159	206,831,694
Totals	$ 169,011,951	$ 62,144,444	$ (4,863,300)	$ 226,293,095

Note 4. Related Party Transactions

VRE reimburses the Commissions for expenditures made on behalf of VRE. During 2009 and 2008, these payments included $3,988,627 and $3,633,886 of salary-related costs and $4,801 and $5,100 of administrative costs, respectively, which are functionally classified with similar payments made directly to vendors and contractors. In addition, VRE pays the Commissions for direct labor and associated indirect costs incurred for services rendered under budgeted activities for VRE. These staff support payments totaled $70,000 and $75,000 to NVTC and $127,178 and $100,354 to PRTC during 2009 and 2008, respectively.

VRE also contracts with PRTC for connecting bus service to selected stations on an as needed basis. PRTC bus service costs amounted to $1,273 and $10,022 in 2009 and 2008, respectively. Amounts payable to NVTC and PRTC were $12,344 and $1,119,232 at June 30, 2009 and $13,341 and $1,020,747, respectively, at June 30, 2008.

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 Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of VRE must participate in the VRS through PRTC. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service, if elected by the employer, payable monthly for life in an amount equal to 1.70 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00 percent per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that included financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at http://www.varetire.org/pdf/publications/2008annurept.pdf or obtained by writing to the system's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5 percent of their annual reported salary to the VRS. VRE has assumed this 5 percent 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.

VRE's contribution rate for retirement for fiscal year 2009 was 11.49 percent of annual covered payroll, inclusive of the 5 percent member contribution, and 1 percent for group life insurance. The contribution rate for retirement for fiscal year 2009 was 10.54 percent and .82 percent for group life insurance.

C. Annual Pension Cost

For fiscal year 2009, VRE's annual pension cost of $341,018 was equal to VRE's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50 percent (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year, and (c) a cost-of-living adjustment of 2.50 percent per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the PRTC's assets is equal to the modified market value of the assets (VRE's assets are not separated from PRTC's). This method uses techniques that smooth the effects of short term volatility in the market value of assets over a five year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years. VRE's annual pension cost of $291,953 for fiscal year 2008 and $267,896 for fiscal year 2007 was equal to VRE's actual and required contributions.

Note 5. Defined Benefit Pension Plan (Continued)

To obtain more information pertaining to three-year trend information and a Schedule of Funding Progress for PRTC and VRE, a request should be sent to PRTC, 14700 Potomac Mills Road, Woodbridge, VA, 22192.

VRE's payroll for the employees covered by the VRS for the years ended June 30, 2009, 2008 and 2007 was $2,967,956, $2,769,945 and $2,541,703 respectively.

D. Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 96.88 percent funded. The actuarial accrued liability for benefits was $6,065,059 and the actuarial value of assets was $5,875,612, resulting in an unfunded actuarial accrued liability (UAAL) of $189,447. The covered payroll (annual payroll of active employees of the plan) was $5,369,542 and the ratio of the UAAL to the covered payroll was 3.53 percent. The only other postemployment benefits offered by VRE are COBRA payments, which have been determined to be immaterial to the financial statements.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability 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, 2009 and 2008, annual track usage fees totaled approximately $5,744,000 and $5,513,000, respectively, and facility and other identified costs totaled approximately $463,000 and $455,000, respectively.

Under the Purchase of Services Agreement, Amtrak operates and maintains the VRE service and rolling stock, and permits the Commissions to use its terminal, station, and equipment maintenance facilities at Union Station, Washington, D.C. Actual costs of these services, which are based on annual budgets prepared in advance by Amtrak, amounted to approximately $21,206,000 in 2009 and $19,555,000 in 2008. The current agreement will terminate on July 1, 2010.

VRE has entered into a series of operating leases with Titan Transit for locomotives. At June 30, 2009, three locomotives were under lease at an annual cost of approximately $203,000. The leases will terminate during fiscal year 2012.

Note 7. Long-Term Debt Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2009:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue Bonds	$ 53,755,000	$ -	$ (19,330,000)	$ 34,425,000	$ 4,935,000
Capital Leases	23,044,557	-	(1,323,831)	21,720,726	945,098
Notes Payable	27,530,555	30,067,809	(975,427)	56,622,937	1,328,952
	104,330,112	30,067,809	(21,629,258)	112,768,663	7,209,050
Accrued Annual Leave	213,897	233,454	(185,882)	261,469	3,930
	$ 104,544,009	$ 30,301,263	$ (21,815,140)	$ 113,030,132	$ 7,212,980

Revenue Bonds:

$37,625,000 Commuter Rail Revenue Refunding Bonds, series 1993; due in annual maturities of $4,810,000 to $5,065,000 through July 2010, plus semi-annual interest at 4.9% to 5.25%	$ 9,875,000
$31,700,000 Commuter Rail Revenue Refunding Bonds, series 1998; due in annual maturities of $125,000 to $6,555,000 through July 1, 2014, plus semi-annual interest at 4.3% to 5.375%	24,550,000
	34,425,000
Plus (less) unamortized:	
Deferred loss	(942,647)
Discount	(32,830)
Premiums	212,435
Total bonded debt, net	$ 33,661,958

The 1993 and 1998 Series Bonds are payable from a pledge of revenues attributable to VRE, including government grants, local jurisdictional contributions and passenger revenue. A financial guaranty bond guarantees payments of each bond series. Mandatory debt service requirements consist of the following:

Years Ended June 30,	Principal	Interest	Total Required
2010	$ 4,935,000	$ 1,699,821	$ 6,634,821
2011	5,195,000	1,434,545	6,629,545
2012	5,610,000	1,147,700	6,757,700
2013	5,910,000	841,794	6,751,794
2014	6,220,000	519,494	6,739,494
2015	6,555,000	176,165	6,731,165
	$ 34,425,000	$ 5,819,519	$ 40,244,519

Note 7. Long-Term Debt Obligations (Continued)

Deferred bond, lease and note costs, consisting of issuance costs and insurance premiums are shown net of accumulated amortization. These costs are amortized on a straight-line basis over the life of the debt. Amortization of deferred costs, approximating $95,000 and $71,500, is included in interest expense in 2009 and 2008, respectively. Federal arbitrage regulations apply to VRE's revenue bonds and the Gallery IV capitalized lease.

The Indentures of Trust for the 1997 Commuter Rail Revenue Bonds required VRE to maintain a debt service reserve. During fiscal year 2000, VRE purchased a surety in substitution of the debt service reserve fund, releasing the proceeds from the reserve. The Indentures of Trust for the bonds also require the maintenance of an operating reserve equivalent to one-third (33.3 percent) of annual budgeted operating expenses. As of June 30, 2009 and 2008, VRE designated $27,932,489 and $21,069,426 respectively, of its cash, inventory and receivables as this operating reserve. The reserves represented 56.18 percent and 48.02 percent of budgeted operating expenses for June 30, 2009 and 2008, 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, 2009 and 2008, are as follows:

	2009	2008
Bond Interest Fund	$ 914,568	$ 1,452,461
Bond Principal Fund	4,935,544	5,835,328
Total held by Trustee	$ 5,850,112	$ 7,287,789

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 $24,640,977.	$ 21,720,726

Future minimum lease payments as of June 30, 2009 are as follows:

Years Ended June 30,	Amount
2010	$ 1,931,357
2011	1,931,357
2012	1,931,357
2013	1,931,357
2014	1,931,357
2015-2019	9,656,785
2020-2024	9,656,785
2025	1,931,357
Total minimum lease payments	30,901,712
Lease amount representing interest	9,180,986
Present value of lease payments	$ 21,720,726

Note 7. Long-Term Debt Obligations (Continued)

Notes 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. The first ten of a series of promissory notes were authorized by the end of fiscal year 2009; when all funds have been borrowed, the individual notes will be combined into a single note. The notes are secured by the revenues of VRE and the railcars.

$8,553,421 Promissory Note #1; due in quarterly maturities of $46,441 to $146,358 through March 2033, plus quarterly interest at 4.74%	$	8,369,333
$3,069,526 Promissory Note #2; due in quarterly maturities of $16,666 to $52,523 through March 2033; plus quarterly interest at 4.74%		3,003,463
$7,673,804 Promissory Note #3; due in quarterly maturities of $41,665 to $131,304 through March 2033; plus quarterly interest at 4.74%		7,508,647
$7,673,804 Promissory Note #4; due in quarterly maturities of $41,883 to $131,993 through March 2033, plus quarterly interest at 4.74%		7,547,934
$5,400,287 Promissory Note #5; due in quarterly maturities of $29,474 to $92,885 through March 2033, plus quarterly interest at 4.74%		5,311,709
$7,673,834 Promissory Note #6; due in quarterly maturities of $41,883 to $131,992 through March 2033, plus quarterly interest at 4.74%		7,547,963
$7,673,814 Promissory Note #7; due in quarterly maturities of $41,883 to $131,991 through March 2033, plus quarterly interest at 4.74%		7,547,944
$3,073,814 Promissory Note #8; due in quarterly maturities of $16,868 to $53,160 through March 2033, plus quarterly interest at 4.74%		3,039,885
$2,350,000 Promissory Note #9; due in quarterly maturities of $13,040 to $41,096 through March 2033, plus quarterly interest at 4.74%		2,350,000
$3,896,059 Promissory Note #10; due in quarterly maturities of $22,505 to $68,513 through March 2033, plus quarterly interest at 4.74%		3,896,059
	$	56,122,937

Note 7. Long-Term Debt Obligations (Continued)

Mandatory debt service requirements for the first ten promissory notes consist of the following:

Years Ended June 30,	Principal	Interest	Total Required
2010	$ 1,268,952	$ 2,637,840	$ 3,906,792
2011	1,352,966	2,576,331	3,929,297
2012	1,414,744	2,514,553	3,929,297
2013	1,489,977	2,439,320	3,929,297
2014	1,558,396	2,370,901	3,929,297
2015-2019	8,994,866	10,651,617	19,646,483
2020-2024	11,382,580	8,263,903	19,646,483
2025-2029	14,410,980	5,235,503	19,646,483
2030-2033	14,249,476	1,467,711	15,717,187
	$ 56,122,937	$ 38,157,679	$ 94,280,616

Note Payable – VRE Offices:

In June 2002, VRE entered into a borrowing with SunTrust Bank in the amount of $900,000 to refinance a previous borrowing used to purchase the VRE offices. This note carried a repayment schedule of 15 years, with the terms of the note subject to revision June 2007. In November 2007 a new note was signed in the amount of $600,000 at 4.31 percent interest with a 10 year amortization and a balloon payment after five years. Principal of $5,000 plus interest is payable monthly. The note is secured by the office condominium. The balance outstanding was $500,000 and $560,000 for the years ended June 30, 2009 and 2008, respectively.

Note 8. Short-Term Debt

VRE uses a revolving line of credit to finance certain grant-funded capital projects prior to the receipt of reimbursements from the granting agencies. The revolving line of credit was not used during the years ended June 30, 2009 and 2008.

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 $254,407 at June 30, 2009 and $223,701 at June 30, 2008.

The Division of Risk Management manages the Insurance Trust Fund pursuant to provisions of the Insurance Plan. Since November 2008, all plan assets have been invested in the Department of Treasury common pool. Prior to that time, approximately one-half of plan assets were invested in the common pool, and the remainder was invested in a portfolio managed by external financial consultants. Activity in the Insurance Trust Fund for the years ended June 30, 2009 and 2008 was as follows:

	2009	2008
Beginning balance, July 1	$ 7,470,123	$ 6,524,971
Contribution to reserves	4,345,000	4,950,000
Insurance premiums paid	(3,017,157)	(4,029,831)
Claims mitigation costs and losses incurred	(718,544)	(57,286)
Investment income	241,003	400,204
Actuarial and administrative charges	(70,343)	(67,935)
Transfer to VRE for small liability claims	(21,000)	-
Transfer to VRE for deductible	-	(250,000)
Ending balance, June 30	$ 8,229,082	$ 7,470,123

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, 2009, there were disputes between VRE and certain vendors. The amounts of any settlements, should they occur, are not determinable at this time. However, such amounts are not expected to be material in relation to the recorded amounts.

The Commissions have outstanding commitments for construction of facilities and equipment. A combination of Federal and Commonwealth of Virginia grants will be used to finance these capital projects. The following is a summary of the more significant contractual commitments, net of expenditures incurred as of June 30, 2009:

Stations and parking lots	$	3,962,971
Railcars		47,348,213
Maintenance and layover yards		4,991,691
Track and signal improvements		367,074
Other administrative		180,192
Total	$	56,850,141

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

Note 11. Pending GASB Statements

At June 30, 2009, 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. 51, *Accounting and Financial Reporting for Intangible Assets,* establishes accounting and financial reporting requirements for intangible assets, particularly in the areas of recognition, initial measurement, and amortization to reduce inconsistencies of reporting among state and local governments. Statement No. 51 will be effective for periods beginning after June 15, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Statement No. 53 will be effective for periods beginning after June 15, 2009.

Management has not yet determined the effect these statements will have on its financial statements.

Note 12. Subsequent Events

In November 2009, the Commissions approved the award of a contract with Keolis Rail Services America for VRE operations and maintenance and mobilization in the amount of $18.5 million through June 30, 2011; the current contract for these services with the National Railroad Passenger Corporation (Amtrak) will terminate on June 30, 2010. The mobilization period will occur during the second half of fiscal year 2010 and the first full year of contract services will be fiscal year 2011. The contract will be for a five year period, with options for two five year extensions for a total potential contract term of 15 years.

VRE entered into contracts at various times in September 2008 through September 2009 to purchase fuel at set prices for delivery in July 2009 through June 2010. The fuel will be used in the normal course of operations and is not being purchased for resale. The total commitment is for 966,000 gallons of fuel at a cost of approximately $2 million.

In November 2009, the Commissions authorized the purchase of three additional locomotives from MotivePower, Inc. for $12.1 million. This modification will increase the contract with MotivePower to 15 locomotives at a total value of $60.6 million. The first locomotive is scheduled for delivery at the end of fiscal year 2010.

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.

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
2008	$ 5,875,612	$ 6,065,059	$ 189,447	96.88%	$ 5,369,543	3.53%
2007	4,861,087	4,962,766	101,679	97.95%	5,189,808	1.96%
2006	3,904,965	4,113,551	208,586	94.93%	4,766,179	4.38%

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. VRE implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

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VIRGINIA RAILWAY EXPRESS

SCHEDULE OF CHANGE IN NET ASSETS
Last Eight Fiscal Years
(Unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:								
Passenger revenue	$ 25,909,794	$ 21,688,092	$ 19,685,561	$ 19,453,436	$ 19,452,162	$ 16,929,629	$ 15,048,262	$12,753,214
Equipment rentals and other	124,926	133,242	206,558	442,517	121,373	188,256	292,086	206,796
Total operating revenues	26,034,720	21,821,334	19,892,119	19,895,953	19,573,535	17,117,885	15,340,348	12,960,010
Nonoperating Revenues:								
Commonwealth of Virginia grants	13,482,816	10,795,443	12,269,884	13,137,477	7,613,022	7,453,276	5,002,085	5,366,332
Federal grants	12,784,123	12,522,868	12,741,069	10,721,335	8,124,763	6,226,445	7,168,236	5,143,950
Jurisdictional contribution	17,275,500	13,379,155	8,802,762	6,878,061	6,352,999	6,352,890	5,752,890	5,752,890
Capital Grants and Assistance:								
Commonwealth of Virginia grants	12,228,446	14,959,850	9,455,655	1,769,727	3,778,146	4,238,109	6,150,235	7,915,624
Federal grants	14,702,198	19,218,547	10,762,936	12,796,829	9,824,036	6,689,765	8,597,822	11,080,201
Pass-through to Fairfax County	(4,456,818)	-	-	-	-	-	-	-
In-kind and other local contributions	1,903,284	925,338	-	-	266,148	3,143,319	457,149	699,375
Interest income:								
Operating funds	129,620	399,553	850,490	367,292	214,888	44,390	87,809	236,488
Insurance trust	241,003	400,204	329,252	721,919	688,816	837,583	1,171,667	1,180,707
Other restrictive funds	36,232	535,093	41,038	840,383	49,860	-	-	-
Insurance proceeds	-	262,676	-	-	-	-	-	-
Total nonoperating revenues	68,326,404	73,398,727	55,253,086	47,233,023	36,912,678	34,985,777	34,387,893	37,375,567
Total revenues	94,361,124	95,220,061	75,145,205	67,128,976	56,486,213	52,103,662	49,728,241	50,335,577
Operating Expenses:								
Contract operations and maintenance	18,694,757	17,433,267	16,982,189	14,619,521	14,144,414	14,212,476	13,095,504	12,612,253
Other operations and maintenance	12,575,004	11,562,892	10,130,233	9,304,325	7,928,107	5,466,313	4,741,041	4,308,986
Property leases and access fees	8,686,385	8,279,505	8,636,947	8,986,974	8,769,866	8,163,632	7,307,905	6,308,712
Insurance	3,866,438	4,099,475	5,169,441	3,521,858	3,533,503	3,275,081	2,429,993	2,413,642
Marketing and sales	1,477,554	1,537,243	1,161,206	1,005,348	1,302,527	1,279,549	1,482,131	1,549,752
General and administrative	5,492,566	5,151,117	5,164,332	5,219,514	5,282,641	5,041,238	5,462,768	4,476,015
Depreciation	10,445,041	10,640,098	9,875,593	8,217,233	6,699,409	6,595,698	5,837,560	5,261,679
Total operating expenses	61,237,745	58,703,597	57,119,941	50,874,773	47,660,467	44,033,987	40,356,902	36,931,039
Nonoperating Expenses:								
Interest and amortization	6,014,243	4,525,279	2,748,084	4,953,443	4,257,178	4,323,776	3,960,846	6,250,481
(Gain) loss on sale of assets	(4,218,641)	3,176,932	291,306	1,366,531	3,640,928	-	-	-
Total nonoperating expenses, net	1,795,602	7,702,211	3,039,390	6,319,974	7,898,106	4,323,776	3,960,846	6,250,481
Total expenses	63,033,347	66,405,808	60,159,331	57,194,747	55,558,573	48,357,763	44,317,748	43,181,520
Change in net assets	$ 31,327,777	$ 28,814,253	$ 14,985,874	$ 9,934,229	$ 927,640	$ 3,745,899	$ 5,410,493	$ 7,154,057

Source: VRE's Audited Financial Statements.
NOTE: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2009 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF OUTSTANDING DEBT
Last Eight Fiscal Years
(Unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002
Revenue Bonds:								
$37,625,000 Commuter Rail Revenue Bond, Series 1993	**$ 9,875,000**	$ 14,450,000	$ 18,800,000	$ 22,945,000	$ 26,895,000	$ 30,660,000	$ 34,250,000	$35,005,000
$23,000,000 Commuter Rail Revenue Bond, Series 1997	-	14,635,000	15,690,000	16,690,000	17,645,000	18,555,000	19,430,000	21,070,000
$31,700,000 Commuter Rail Revenue Bond, Series 1998	**24,550,000**	24,670,000	24,785,000	24,895,000	25,000,000	25,100,000	25,195,000	31,305,000
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	2,018,938	2,364,591	2,691,039
$25,100,000 Capitalized Lease Obligation	**21,720,726**	22,623,892	23,486,988	24,311,791	25,100,000	-	-	-
$2,400,000 Capitalized Lease Obligation	-	-	-	-	-	-	262,222	534,198
$297,691 Capitalized Lease Obligation	-	-	-	-	-	-	55,882	108,624
$746,282 Capitalized Lease Obligation	-	-	-	-	-	-	94,961	247,109
Notes Payable:								
$900,000 SunTrust Bank	**500,000**	560,000	605,000	660,000	720,000	780,000	840,000	900,000
$57,038,363 FRA Notes(#1-#10)	**56,122,937**	26,970,555	-	-	-	-	-	-
Outstanding on June 30, 2009	**$ 112,768,663**	$ 104,330,112	$ 84,386,707	$ 90,767,224	$ 97,012,951	$ 77,113,938	$ 82,492,656	$91,860,970

Source: VRE's Audited Financial Statements.
NOTE: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2009 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF JURISDICTIONAL CONTRIBUTIONS
Last Eight Fiscal Years
(Unaudited)

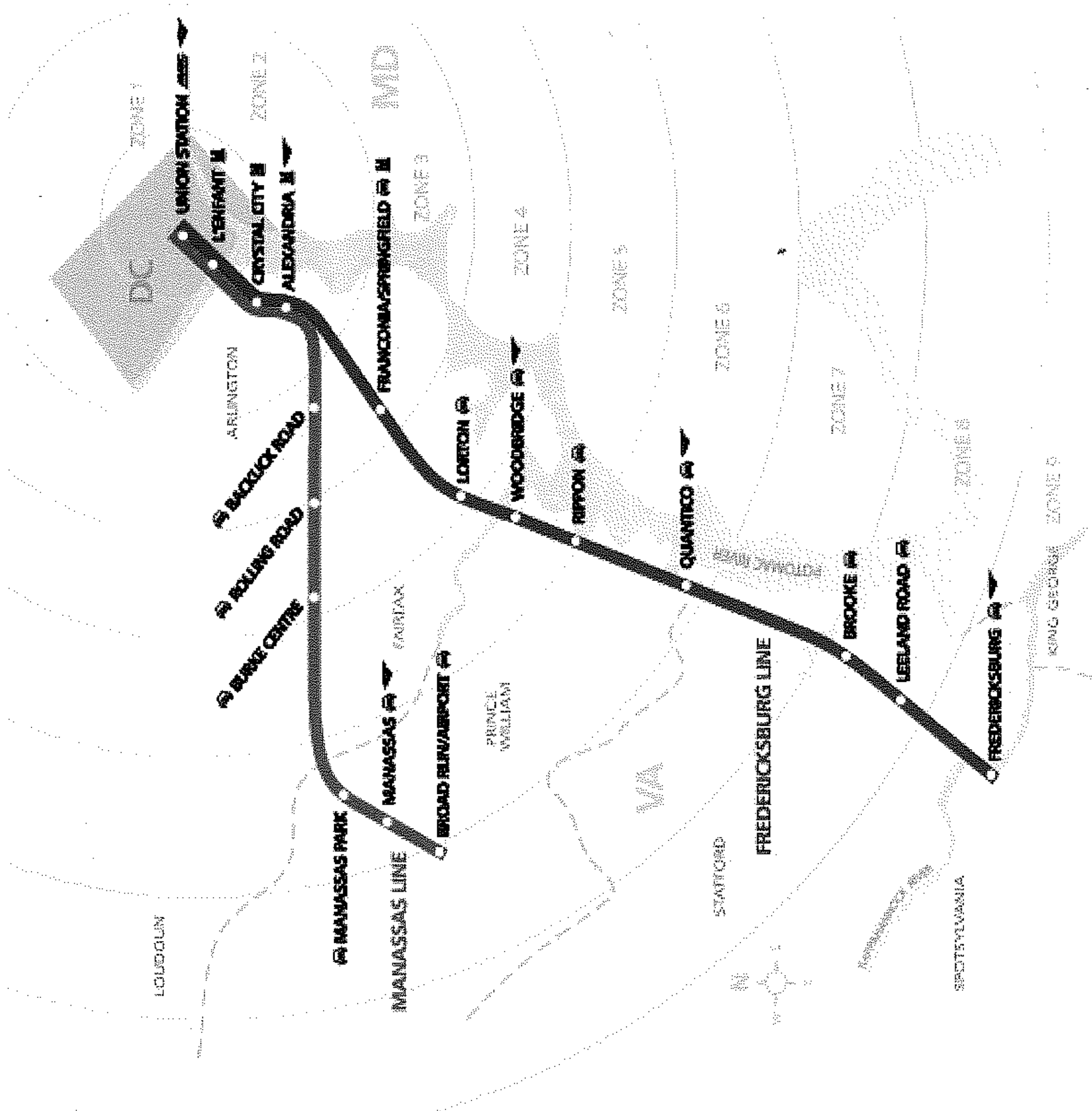
	2009	2008	2007	2006	2005	2004	2003	2002
Fairfax County	$ **5,507,805**	$ 4,700,508	$ 3,935,736	$ 3,159,643	$ 2,963,820	$ 2,972,946	$ 2,607,621	$ 2,510,184
City of Fredericksburg	**482,764**	330,713	111,115	73,827	57,544	68,276	79,191	109,519
City of Manassas	**938,897**	655,077	428,436	276,306	270,924	270,494	286,196	329,215
City of Manassas Park	**567,082**	359,574	183,686	179,422	149,758	129,178	127,728	135,725
Prince William County	**6,511,839**	4,624,876	2,961,241	2,236,676	2,061,006	1,956,546	1,878,919	1,846,733
Stafford County	**2,974,507**	2,429,735	917,147	699,424	609,222	726,297	554,900	613,575
City of Alexandria	**118,797**	113,140	107,752	102,621	97,734	93,080	88,648	84,427
Arlington County	**173,809**	165,532	157,649	150,142	142,992	136,183	129,687	123,512
Total contributions	$ **17,275,500**	$ 13,379,155	$ 8,802,762	$ 6,878,061	$ 6,353,000	$ 6,353,000	$ 5,752,890	$ 5,752,890

Source: VRE's Audited Financial Statements.
NOTE: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2009 are available.

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF MISCELLANEOUS STATISTICS
Last Eight Fiscal Years
(Unaudited)

	2009	2008	2007	2006	2005	2004	2003	2002
Rolling Stock (Owned or Leased)								
Locomotives	**21**	18	19	20	20	19	19	19
Railcars	**91**	89	90	90	90	90	86	86
Total rolling stock	**112**	107	109	110	110	109	105	105
Stations	**18**	18	18	18	18	18	18	18
Parking Spaces	**8,504**	7,284	7,273	7,273	7,009	6,354	5,980	5,980
Employees	**37**	37	36	36	34	32	28	28
Ridership and Fare Revenue Data:								
Total Ridership	**3,857,646**	3,628,563	3,453,561	3,637,043	3,763,740	3,562,299	3,296,272	2,798,016
Average Daily Ridership	**15,754**	14,662	13,982	14,667	15,238	14,720	13,291	11,467
Average Fare per Trip	**$ 6.66**	$ 5.98	$ 5.70	$ 5.40	$ 5.17	$ 4.76	$ 4.64	$ 4.54


UNION STATION
L'ENFANT
CRYSTAL CITY
ALEXANDRIA
FRANCONIA/SPRINGFIELD
LORTON
WOODBRIDGE
RIPPON
QUANTICO
BROOKE
LEELAND ROAD
FREDERICKSBURG
BACKLICK ROAD
ROLLING ROAD
BURKE CENTRE
MANASSAS PARK
MANASSAS
BROAD RUN/AIRPORT
MANASSAS LINE
FREDERICKSBURG LINE
DC
MD
VA
ARLINGTON
FAIRFAX
PRINCE WILLIAM
STAFFORD
LOUDOUN
SPOTSYLVANIA
KING GEORGE
ZONE 1
ZONE 2
ZONE 3
ZONE 4
ZONE 5
ZONE 6
ZONE 7
ZONE 8
ZONE 9

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

	2008			1999		
Employers	Rank	Employees	Percentage of Total Jurisdictional Employment	Rank	Employees	Percentage of Total Jurisdictional Employment
Federal Government (1), (2), (3), (4)	1	73,945	N/A	1	32,310	N/A
Fairfax County Public Schools (1)	2	22,994	N/A	2	18,388	N/A
Fairfax County Government (1)	3	15,087	N/A	3	10,911	N/A
Arlington County Government and Schools (4)	4	10,264	N/A			
Prince William Public Schools (2)	5	9,720	N/A	5	5,853	N/A
Booz Allen Hamilton (1) (4)	6	8,000-11,000	N/A			
Inova Health System (1)	7	7,000-10,000	N/A	8	4,000-5,000	N/A
Northrop Grumman (1)	7	7,000-10,000	N/A	8	4,000-5,000	N/A
Science Applications International Corporation (1)	9	4,000-6,999	N/A	6	5,000-6,000	N/A
Federal Home Loan Mortgage (1)	9	4,000-6,999	N/A			
Lockheed Martin (1)	9	4,000-6,999	N/A			
Sprint (1)	9	4,000-6,999	N/A			
Kaiser Permanente (1)				4	10,000-11,000	N/A
TRW, Inc (1)				6	5,000-6,000	N/A
Bell Atlantic (4)				10	3,825	N/A

Sources:

(1), (2), (3), and (4) extracted and combined from the following sources:

(1) Fairfax County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 4.2, page 250
(2) Prince William County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 18, page 166
(3) City of Alexandria fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table XIX, page 133
(4) Arlington County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table L, page 193

DEMOGRAPHICS AND ECONOMIC STATISTICS OF PARTICIPATING JURISDICTIONS
Fiscal Years 1999 to 2009
(Unaudited)

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	City of Alexandria (7)	Arlington County (8)
2009 (all categories)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2008								
Population	N/A	360,411	36,666	13,950	122,800	22,410	141,000	208,000
Personal income (in thousands)	N/A	N/A	N/A	$424,663	$4,455,430	$789,526	$10,204,006	$14,040,000
Per capita personal income	N/A	N/A	N/A	$30,442	$36,282	$35,231	$72,369	$67,500
Unemployment rate	N/A	3.5%	4.8%	3.2%	3.4%	6.4%	2.2%	2.6%
2007								
Population	1,041,507	352,559	38,066	13,910	123,200	21,273	139,000	204,800
Personal income (in thousands)	$70,500,650	$16,715,928	N/A	$419,253	$4,294,238	$710,837	$9,507,531	$13,004,800
Per capita personal income	$67,691	$40,004	N/A	$30,140	$35,571	$33,415	$68,400	$63,500
Unemployment rate	2.2%	2.6%	2.7%	2.4%	2.7%	4.4%	2.2%	2.3%
2006								
Population	1,037,311	345,349	38,066	13,100	118,384	20,732	138,000	200,226
Personal income (in thousands)	$67,111,947	$15,494,963	N/A	$380,385	$4,207,840	$662,387	$8,835,057	$12,132,694
Per capita personal income	$64,698	$38,728	N/A	$29,037	$35,544	$31,950	$64,022	$60,595
Unemployment rate	2.2%	2.3%	2.9%	2.3%	2.4%	4.2%	N/A	2.3%
2005								
Population	1,033,646	333,335	37,000	12,900	116,545	20,458	135,000	198,267
Personal income (in thousands)	$63,917,568	$14,589,990	N/A	$361,406	$3,967,308	$623,826	$7,776,966	$11,699,736
Per capita personal income	$61,837	$37,045	N/A	$28,016	$34,041	$30,493	$61,147	$59,010
Unemployment rate	2.5%	2.6%	2.8%	2.1%	2.4%	5.0%	N/A	2.5%
2004								
Population	1,022,298	321,083	36,500	12,700	113,173	20,189	134,000	198,739
Personal income (in thousands)	$58,830,183	$13,355,974	N/A	$343,776	$3,644,396	$607,669	$7,435,257	$11,497,250
Per capita personal income	$57,547	$34,989	N/A	$27,069	$32,202	$30,099	$58,365	$57,851
Unemployment rate	2.7%	2.6%	3.1%	2.0%	2.5%	6.0%	N/A	2.6%
2003								
Population	1,012,090	309,647	36,300	12,300	108,994	20,076	135,000	196,925
Personal income (in thousands)	$54,771,275	$12,176,485	$843,820	$321,694	$3,310,801	$602,180	$7,165,859	$11,106,570
Per capita personal income	$54,117	$33,023	$23,246	$26,154	$30,376	$29,995	$53,711	$56,400
Unemployment rate	3.1%	3.6%	3.5%	1.8%	2.9%	5.8%	N/A	2.3%
2002								
Population	1,004,435	297,207	35,900	11,900	103,606	19,800	129,938	193,754
Personal income (in thousands)	$52,744,891	$11,492,607	$805,706	$305,128	$3,105,569	$561,508	$7,009,871	$10,685,146
Per capita personal income	$52,512	$32,071	$22,443	$25,641	$29,975	$28,359	$52,344	$55,148
Unemployment rate	3.4%	3.3%	4.3%	2.7%	2.9%	4.0%	N/A	2.7%

	Fairfax County (1)	Prince William County (2)	City of Manassas (3)	City of Manassas Park (4)	Stafford County (5)	City of Fredericksburg (6)	City of Alexandria (7)	Arlington County (8)
2001								
Population	984,366	283,814	35,500	11,200	98,060	19,279	130,403	189,983
Personal income (in thousands)	$51,126,001	$10,983,002	$793,056	$321,966	$2,935,524	$538,752	$6,931,579	$10,226,785
Per capita personal income	$51,938	$31,954	$22,340	$28,747	$29,936	$27,945	$52,125	$53,830
Unemployment rate	2.5%	2.4%	3.1%	1.0%	2.2%	3.7%	N/A	2.1%
2000								
Population	969,749	270,841	35,135	10,290	92,446	21,686	129,147	189,453
Personal income (in thousands)	$48,522,361	$10,228,409	$757,201	$285,640	$2,658,655	$575,872	$6,122,938	$9,384,744
Per capita personal income	$50,036	$31,036	$21,551	$27,759	$28,759	$26,555	$48,106	$49,536
Unemployment rate	1.6%	1.5%	1.7%	1.1%	1.7%	2.3%	N/A	1.1%
1999								
Population	946,371	262,414	34,800	9,300	94,400	21,686	121,700	183,716
Personal income (in thousands)	$44,769,027	$8,928,784	$696,585	$230,017	$2,522,462	$510,553	$5,775,230	$8,396,372
Per capita personal income	$47,306	$28,145	$20,017	$24,733	$26,721	$23,543	$45,956	$45,703
Unemployment rate	1.5%	2.0%	1.6%	1.2%	1.5%	3.3%	N/A	1.6%

Sources:

(1) Fairfax County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 4.1, page 249
(2) Prince William County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 16, page 165
(3) City of Manassas fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table XII, page 114
(4) City of Manassas Park fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 119
(5) Stafford County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table S-14
(6) City of Fredericksburg fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table 14, page 124
(7) City of Alexandria fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Tables XI, XIV & XXI, pages 126, 128 & 136
(8) Arlington County fiscal year 2008 Comprehensive Annual Financial Report, Statistical Section, Table K, page 192

N/A = Not Available

Compliance Section

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INDEPENDENT AUDITORS' 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 Commission Board Members
The Northern Virginia Transportation Commission
The Potomac and Rappahannock Transportation Commission

We have audited the financial statements of Virginia Railway Express (VRE) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 4, 2009. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects VRE's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of VRE's financial statements that is more than inconsequential, will not be prevented or detected by VRE's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 09-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by VRE's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VRE's financial statements are free of 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*.

We noted certain matters that we reported to management of VRE in a separate letter dated November 4, 2009.

This report is intended solely for the information and use of the Commissioners, the Auditor of Public Accounts, and other Federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia
November 4, 2009

VIRGINIA RAILWAY EXPRESS

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009

FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Material Weakness in Internal Control

09-01 Recognition of Accrued Expenses

Based on the adjustment made during VRE's annual audit, it does not appear that VRE's management was able to appropriately record all liabilities of VRE at year end. During the reconciliation process of accrued expenses at year end, management failed to record a material wire transfer associated with the acquisition of new locomotives in the correct accounting period. The proper recognition of expenses at year end is an essential process that allows for complete and accurate financial information. We recommend that management implement a policy that all transactions, including wire transfers, are reviewed and appropriately accounted for in the correct accounting period.

Management's Response

All payments made by check are rigorously reviewed in the months just prior to and after year-end to ensure that expenditures are recorded in the appropriate accounting period. Wire transfers, which are infrequent and few in number, have not been included in this secondary review. A specific review of all transactions made by wire transfers has now been added to the year-end procedures.